

HISTORICAL VIEW OF BANKS IN ALBANIA

Albanian Association of Banks

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ALBANIAN ASSOCIATION OF BANKS
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FOREWORD

The Albanian Association of Banks (AAB) has commissioned the present book on the occasion of the 100th anniversary of the Declaration of Albania's Independence. Authored by three renowned scholars, it covers the history of banking in the country from the beginning of the nineteenth century to present.

The first banking institutions in Albania were the branches of the Turkish Agrarian Bank and the Ottoman (Imperial) National Bank. Over the years, many other foreign and Albanian banks have operated in the country, and today the AAB represents 16 banks of national and international ownership. The Albanian banking system is financially sound and offers a wide range of services and products in line with modern banking practice.

I thank all those who have contributed to this book, especially and foremost its three authors: Prof Ksenofon Kristafi, Mr Llazi Balliu, and Dr Spiro Brumbulli, who have made excellent documentation and analysis of our banking history. On a more personal note, it gives me immense pleasure and pride as a Turkish/Albanian and the CEO of a bank whose history spans most of the last 100 years, to occupy a few lines in this book.

I am of the firm opinion that the centuries ahead will be brighter and more prosperous for the Albanian people, and the banks will continue to contribute to such prosperity.

Seyhan PENCABLIGIL

Chairman of the Albanian Association of Banks
CEO of Banka Kombëtare Tregtare

PREFACE

The present book on the historical view on banks in Albania was prepared by the Albanian Association of Banks in the context of the 100th anniversary of Albania's Independence.

The purpose of the book is to introduce a broad based readership to the historical facts about banking in Albania, with primary focus on the deposits, lending and payments. The historical facts are clustered into three main time periods: the first period relates to banking business until 1944; the second period highlights developments over 1944-1991; and the third period focuses on the development of commercial banking following 1991.

Prepared by Prof. Dr. Ksenofon Krisafi, the first part of the book spans the development of local banks from the beginning of the nineteenth century until 1944. In chronological order and in accordance with the political and economic occurrences, both at national and international level, the author sheds light on the efforts, successes and failures at different time periods: a) at the end of XIX century and early XX century, b) during and after the war First World, c) over the chaotic financial years 1921-1924, d) in 1925-1939 and during World War II 1939-1944. This part of the book concentrates on historical facts related to the great efforts by authorities and the broad public, too, to establish the Albanian currency, to build the Albanian banking system and to operate a payment system in Albania.

However, the author establishes that, notwithstanding the first attempts to establish the local currency, the local banking and payment system which date back to the early nineteenth century, it was only by the end of the 19th century and the first banking institutions were introduced in Albania with the branches of the Turkish Agrarian Bank and the Ottoman (Imperial) National Bank. The early twentieth century saw the rekindling of banking ideas in Albania based on the necessity to create a local bank. The Albanian Renaissance representatives went beyond the concept and idea and formulated the first bank projects. The Declaration of Albania's Independence intensified interests not only on the part of Albanians, but also foreigners, in the establishment of banking institutions. Ismail Qemali's government made serious effort in that direction. A concessionary project was proposed to foreigners leading to the establishment of the first bank in Albania, albeit only short-lived.

Of particular interest was the project on the creation of Albania's National Bank, which was conceived in 1922, when the Albanian government addressed the League of Nations with the request to consider the opportunities for foreign investment in Albania. The report concluded with a proposal submitted to the League to assign foreign experts to deal with bank building. This process was crowned with the relevant

agreement and the launching of the first bank in 1925. The operations of this bank as of 1944 are of great interest. This part of the book describes numerous political and economic hindrances affecting banks operations; however, it also highlights a number of achievements such as those related to progress with local currency establishment and payments, deposit mobilization and lending to the economy.

In addition, the post independence period until 1944, saw the establishment of several other banking institutions, which are described in detail by the author. Many of these institutions were controlled entirely by foreign capital, and a few were under joint local and foreign control.

The second part of the book, spanning the period 1944-1991 was prepared by Mr. Llazi Balliu, a university lecturer. This part describes primarily the banking institutions, their characteristics and role in mobilizing the savings of the population, in injecting credit to the economy (state enterprises and agricultural cooperatives), in effecting payments within and without the country, and in controlling investment funding.

The State Bank of Albania was the most important bank in the country in this period. It was both a state bank (central bank), and a commercial bank. However, in line with the purpose of the book, the author focuses only on its functions as a commercial bank. Initially, the bank had the monopoly of lending and payments, but gradually, along the various stages of economic development, this monopoly was removed with some of its activities being transferred to the other banks, such as the Agricultural Bank. Deposition of population's savings was the monopoly of the Insurance of Savings and Insurances. The Agricultural Bank had the monopoly of crediting agricultural enterprises and cooperatives. These institutions were linked among themselves by strong and conditional bonds. Population deposits placed with the Institute of Savings and Insurances were used by the State Bank of Albania and the Agricultural Bank for lending to their customers. The Institute of Savings and Insurances did not credit the economy, and the other two banks did not collect deposits from the population.

During this period, not only did banks belong to the state (the Albanian state was the owner of their capital), but they had a very strong connection to the state. The funding of enterprises and agricultural cooperatives, practically the only bank borrowers, was conceived in such a way that the bank loans went to supplement funding that could not be afforded by the state budget. However, banks made efforts, through various banking products, to maintain some independence from the government. This is evidenced for example, by the fact that banks, in addition to providing guidance and advice to agricultural enterprises and cooperatives with developing their financial plans, were responsible also for the very development of these plans, as well as for designing efficient accounting procedures for these entities. However, overall, the deposits of enterprises and agricultural deposits with the banks could be handled by the governmental authorities

The bank had a great role to play, in particular, in funding the fundamental investments (according to the terminology of the time) by state enterprises and agricultural cooperatives. The Bank controlled the entire investment process, starting from costing the bill of quantities to the full completion of the investment facility, not only with regard to the specific investment projects it was asked to fund, but also any investment to be made in the country's economy.

In this period, the banks had the monopoly on the domestic payments service. All state owned enterprises and agricultural cooperatives placed their liquidities in banks, whereupon they authorized payments to third parties. Although the banking activity was conditioned by the centralized economy, the banks had developed means to carry out credit and debit payments, in an effort to adapt to foreign developments in this field. In the field of international payments, banks applied all the internationally recognized payment modalities, even more than that, since some payment methods (such as clearing which was used within the Eastern economic bloc) were not very popular in the West.

The third part of the book was written by Dr. Spiro Brumbulli, and presents the establishment and operation of commercial banks after 1991, in the wake of the introduction of the free market economy in Albania. It provides detailed facts such as the separation of commercial banks' activity from the state, the division of the commercial activity of central bank from its proper functions, bank privatization processes, support for banking activity through changes in the banking legal and regulatory framework, the development of the banking network, the increase of bank numbers and market share for each bank, etc.

The system of commercial banking in Albania after 1991 was characterized by the gradual, but substantial introduction, of foreign banks from different European countries and beyond. This part of the book describes the historical facts about these developments, starting with the banks that entered the Albanian market through various agreements, to the banks that were incorporated on the basis of licenses, as well as the banks established with Albanian private capital.

Of interest is also the process of privatization of former state-owned banks. These privatizations are among the most successful operations with positive outcomes in the real economy, as the new shareholders immediately transferred capital, knowledge and new technology to the privatized banks, providing great impetus to the rapid development of the banking industry in the country. Considerable space in the book is taken up by the legal and regulatory changes during this period. Bank legislation changed frequently, but each change has been in line with the anticipated developments, with positive impact on the needs of the economy and the local and international financial developments.

The circumstances and conditions under which banks carried out their activities and the manner in which they coped with such difficulties as the pyramid schemes, the confidence (not systemic) crisis and the impact of the global financial crisis are

also objectively described. Also, the readership will be acquainted with the numerous structural reforms that contributed to the rapid development of banks and their adaptation to the needs of the real economy and the financial industry. This part of the book also provides information on the minimum capital requirements that the regulatory authorities established for banks to comply with in the last 20 years.

In this part of the book, the reader will find a description of the reformation of the payment system, as well as the functioning of the Albanian International Payment System and the Albanian Electronic Clearing House. As a result, Albania has a modern payment system, comparable to payment systems in all other developed countries.

The author has clustered the main banking facts according to three time periods, each marked by peculiar features: a) the creation of genuine commercial banks; b) development of banks after the collapse of the pyramid schemes and c) development of banks following the launch of privatization for state-owned banks. The descriptions are illustrated with tables containing facts to illustrate the historical developments and the main achievements of commercial banks in Albania in the last two decades.

Prof. Asoc. Dr Orfea Dhuci

Period 1863 - 1944

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Banks and their activities represent one of the fundamental pillars on which a modern state rests. In fact, banks are an important element, indeed, a condition *sine quoi non* for statehood. This explains the reason why the issue of the establishment of the Bank of Albania was put forth and dealt with together with all the other components of state building, since the early days of independence in the year 1912. The same approach was taken when the issue of the recovery and consolidation of the Albanian State after the First World War was laid down for solution.
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I. THE FIRST ATTEMPTS TO ESTABLISH BANKS IN ALBANIA

Although there were no banks or bank branches in Albania under the Ottoman Empire, Turkish banknotes issued in 1830 were put in circulation and were actually used in exchange transactions. These banknotes were nothing but handwritten value notes. In 1842, the *Tanzimat* reforms, introduced the printed banknotes. These banknotes were called “kaime-i mutebere-i nakdijje” or “kaime-i mutebere-i osmanijje”, and served as ordinary notes for upfront payments.

Kaime worth 20 Kurush, back and front.



Kaime worth 200 Kurush, front side.



Kaime worth 1 Kurush.

The actual activity of banking institutions in Albania dates back at least to the year 1839. Numerous pieces of evidence show that bank branches and subsidiaries of Ottoman banks carried out operations in the Albanian territories. On 4 February 1863, the Ottoman (Empire) National Bank was established. Its articles of association were approved in 1875. At the beginning of the 20th century, it established its branches in the vilayets of Ioannina (1910), Manastir (1903), Skopje (1903) and Shkodër (1911). These branches remained operational until 1914, when they all closed, with the exception of the branch of Ioannina, which remained in operation until the year 1921. The Ottoman National Bank had established an additional branch in the city of Thessaloniki, where many Albanians had settled and ran their own businesses. Several



Cheque issued in Shkodër in 1908 and paid in Budapest.



Cheque issued in Berlin in 1908 and paid in Shkodër.

years later, in 1888, another Turkish banking institution, called the Turkish Agrarian Bank, inaugurated its subsidiaries in the town of Shkodër, Kavajë, Tiranë, Elbasan, Berat, Korçë, etc. They implemented the financial legislation of the Ottoman Empire, enforced by a supervisor appointed by the Ottoman government. This bank proved to be successful and took on the characteristics of a modern financial institution by the standards of that era. There is evidence that in the year 1912 alone, the bank had made loans to the population in the vilayets at a total value of 6.7 million golden grosh (kuru).

There was no central financial institution that could play the role of a central bank in the Albanian lands, which is self explanatory given the fact that these lands were administrative constituents units of the Ottoman Empire. This is why there was no unified monetary system and why the currencies were exchanged at rates and rules that differed from town to town.

However, there was no shortage of projects and attempts to establish a bank in Albania. These endeavors date back to early times. In a quick historical retrospective, one finds that these efforts belong to the second half of the 19th century, the time when the Albanian Renaissance representatives designed platforms for the creation of the independent Albanian state, including programs on the economic development of the country. One of the distinguished ideologues of the Albanian National Renaissance, Sami Frashëri, in his major work, *Albania: what it was, what it is and what it will be*, deals with the necessity of establishing a bank in Albania and the issuance of the Albanian *franc* as the most adequate currency for the establishment of adequate monetary operations. Later on, in April 1901, the idea of establishing an Italian bank in Montenegro was launched. This bank would also cover Albania. Two years later, the Italian parliament member, A. di San Giuliano, proposed to move away from the original idea and establish the bank in Shkodër. The same proposal was launched anew by the Italian Batista Pellegrini, who in his book "*Heading to war? Disagreements between Italy and Austria*" - "*Verso la guerra? Il dissidio fra l'Italia e l'Austria*", published in 1906, called on the Italian government and his compatriot entrepreneurs to invest on the creation of banks in Albania.

Gaspër Guga, an economist from Shkodër, would further develop the idea of an Albanian bank in his book by the title of "*Albania of the two vilayets on the Adriatic. Issues of morphology and anthropo-geography in the Albanian region. Its relations with Italy and Austria. Its economic future.*" ("*Çështje të morfologjisë dhe të antropogjeografisë në rajonin shqiptar. Marrëdhëniet e saj me Italinë dhe Austrinë. E ardhmja e saj ekonomike*" - "*L'Albania dei due Vilajet Adriatici. Appunti di morfologia e d'antropogeografia nella regione albanese. I suoi rapporti con l'Italia e con l'Austria. Il suo avvenire economico*") published in 1909, in Venice, Italy. In the year 1907, *Banca Commerciale d'Oriente* had opened its subsidiary in Shkodër by the name of "*Tozzi and Company*" Bank.

II. ALBANIA'S INDEPENDENCE AND FOREIGNERS' INTEREST IN THE BANKS

The foreign banks start to demonstrate serious interest on the Albanian banking market following the declaration of independence and the creation of the first structures of the Albanian state. The provisional Government of Vlorë, constituted by the National Assembly in November 1912, put forth the necessity to establish a bank in Albania so that it would contribute to pulling the country out of the backwardness and to accelerate the economic development which, among other things, was hampered by the difficult financial situation. Ismail Qemali, the leader of the Albanian government, was of the opinion that the fast development of the country could not be possible without financial assistance from abroad and without the participation of foreign capital. In a meeting with Krajewski, France's representative on the International Commission of Control, Ismail Qemali told him that he had tried in London and Paris to obtain loans on account of the new state, but to no avail. Ismail Qemali was in particular aware of the role of the bank and considered its creation as the second liberation of Albania, in political and economic terms. In the conditions of the objective impossibility to establish a bank with local resources and domestic capital, he started negotiating with foreigners and outlined the necessary steps for the preparation of the necessary legal and institutional basis for the creation of the Bank. Led by Ismail Qemali, in its first steps the government turned to Vienna and Rome. It entered into concessionary negotiations, among which also the one relating to the establishment of the bank. The official agreement on the creation of what was going to be the first Albanian national bank was dated 4 October 1913. It was signed by Ismail Qemali himself, with Karol Pitner and Oskar Pollak, representing the Austrian bank *Viener-Bank Ferein*, with principal offices in Vienna and with Pietro Fenolio and Guido Ansbaher, representing the Italian Commercial bank (*Banca Commerciale Italiana*), with principal offices in Milan. The concessionary agreement that would establish the entity known by the name of the National Bank of Albania, i.e., the first national bank of Albania ever, had a valid lifespan of 60 years. It provided that, in case one year before the expiration of the term, the Albanian government would not declare the end of validity, and the bank would come to a halt. Otherwise, the agreement would be renewed and the bank would continue to be in operation for another 30 years. Its founding capital was fixed at 10 million coronas or 10.5 million Italian liras, split in equal shares between the two groups.

The activity of the bank would be steered by an Administrative Council comprised of representatives of both founding parties. The bank was given the exclusive right to issue banknotes in the Albanian and French languages. It was required to create a gold reserve equaling 1/3 of the banknotes in circulation. The Bank enjoyed the

privileges and tasks of a genuine modern bank. It served as the financial agent of the Government of Albania both within and outside the country. It was exclusively entitled to trade government bonds and other instruments on behalf of the Albanian government; it had the right to conduct credit transactions, to emit risk free bonds and to enter mortgage agreements.

Following the signature of the agreement, given its strong interest to have the bank start its activity immediately, the Albanian government deposited its resources and asked the Albanian merchants to follow suit and deposit their free monies.

However, this bank was short lived. Developments not only in Albania, but the entire region, created difficulties which caused the bank to close its activity after only a few months of existence.

Later, in 1914, the Albanian government headed by Turhan Pashë Përmeti, faced by numerous financial difficulties, sought loans abroad in order to cope with the country's situation. The appeal of Prince Wied, the then head of the Albanian state assigned by the Great Powers, was answered by certain Austrian financial circles. Their readiness was thwarted by France, under the pretext that the main powers should participate equally in the bank's capital. This project of the internationalization of the Albanian Bank was backed by Italy, forcing Austria to withdraw from its initiative.

III. BANKS IN ALBANIA DURING AND AFTER THE FIRST WORLD WAR

During World War I, Albania was caught in the crossfire of warring armies. There was no central state authority possessed of legitimate powers that could be applied across the Albanian territory. The Albanian state had ceased to exist. The administrative duties were expended by the commands of foreign armies stationed in different parts of the territory. Consequently, an Albanian central bank was out of the question. However, taking advantage of the unclear situation prevailing in the country, several banks opened their branches here, such as the *Viner Bank Ferein*, mentioned above, *Pester Bank* and *Ungarische Bank*. They were primarily involved in lending.

Following the war, with the resurgence of the independent Albanian state, in tandem with efforts to establish an Albanian bank, the governments that took office focused their attention on placing the financial situation under control. On the basis of Law No. 41, dated May 6, 1920, the first domestic government bonds were issued, each with a face value of 50 golden francs. The debt consisted of 40 000 bonds amounting to 2 million gold francs. In the month of August that same year, the government headed by Sulejman Delvina, opened negotiations with representatives of the Italian government on issues of economic and financial character. With regard to the former National Bank of Albania, of which the inception agreement was signed in October 1913, the Albanian representatives stressed that such agreement was no longer suitable in the newly created conditions. Their proposal was to involve whatever financial group to establish an Albanian state bank, as an Albanian juridical person, with joint Albanian-Italian capital. There were also other initiatives, all ending without success.

In the meantime time, the Albanian government remained committed to its efforts to place under control and to stabilize the financial and banking situation in the country. In June 1921, the decision was made to raise government funds based on the value of the golden franc, in accordance with the exchange rates applied for other currencies in circulation. In March 1922, the law was passed to issue national banknotes in the amount of 3 million gold francs; however, for various reasons, this law never entered into force.

IV. THE CHAOTIC BANKING AND FINANCIAL SITUATION IN 1921-1924

Albania's financial situation over 1921-1924 could be described as chaotic. Numerous authors dealing with the history of the Albanian currency and banks, such as Indro Montanelli, Bernd Fisher, Alessandro Roseli, Haxhi Shkoza, Sejfi Vllamasi, Iljaz Fishta, as well as the book: "History of the Central Bank of Albania," 2003, by Iljaz Fishta and Esmeralda Uruçi, assert that a variety of banknotes of wide ranging values and of most bizarre origins continued to be in circulation. These included remnants of Turkish banknotes, the Italian lira, the Swiss and Belgian franc, Austrian corona, Greek drachma, Serb dinar, French franc, US dollar, English sterling, etc. This highly variable range of currencies caused a lot of confusion in the country while at the same time bringing losses to bear on the national wealth due to unfavorable exchanges rates on the foreign markets.

The creation of the monetary and lending system was identified as a necessity of the time. As part of the efforts to improve the country's economic and financial situation, in June 1922, the Albanian Government turned to the League of Nations with the request to dispatch an expert team to Albania to assess local opportunities for foreign investment. On this occasion, the League's financial committee sent to Albania Albert Calmes, professor at the University of Luxemburg, who in September 1922 presented the said committee with a detailed report on Albania's financial situation. According to this report, Albania had in circulation or in its treasury from 50 up to 100 million French francs, exclusive of the golden jewelry and other decoration objects. In conclusion, the author recommended the creation of a bank with emission and lending powers, jointly owned by domestic and foreign capital. The bank was to be given the mandate to issue banknotes and put them in the market, and to carry out lending and other transactions. The Bank would be under foreign administration and would serve as an instrument to facilitate the exploitation of the country's abundant assets.

As part of its functions and in an effort to contribute to economic recovery and the stabilization of the country's life, as a provisionary measure, at the beginning of 1923, the Albanian government passed a law granting authority to the municipalities to start issuing their own banknotes of different values, up to the amount of 80 thousand golden franc. The Law took effect and the municipalities of Fier, Korçë, Shkodër, Vlorë, etc., designed, produced and put on the market their own banknotes. However, such policy were not to and could not continue for very long, since it ran contrary to the overall national tendency aimed at building a centralized Albanian state to deal with the difficult economic and financial situation that the country was going through.



Regional Banknotes issued by the Municipalities in Shkodër, Fier, Berat, Vlorë, Korçë during 1918 – 1924, in the absence of national banknotes.

In another attempt to help Albania establish its own banking system, at the request of the Albanian government, the League of Nations sent one year later I. D. Hunger, a Dutch national, to present the League's project.

According to the project proposed by the League, the founding capital of the bank, set at 5 million golden francs, would be shared by:

- England, France and Italy 25 % each;
- Belgium 5 %;
- Albanian 10 %; and
- A group of other states 10 %.

However, from June to September of the same year, a number of additional projects on the establishment of an Albanian national bank were submitted both by locals and foreigners. Particularly interesting appeared to be Avni Rustemi's ideas in an article he published in one of the daily journals in April 1924. According to him, the bank should be a national financial institution, with entirely Albanian capital.

V. THE PROJECT ON THE ESTABLISHMENT OF THE NATIONAL BANK OF ALBANIA

The idea was particularly appealing to Italy, which made efforts to obstruct the participation of England and France. In line with its ambitions, the Italian Government appointed Mr Mario Alberti, Director of *Credito Italiano*, to start working towards the creation of an Italian-Swiss-American or Italian-Swiss-Dutch group to be subsequently presented to the League of Nations as the most suitable option to implement the concessionary agreement on the establishment of the National Bank of Albania. The Bank's capital would be provided by the Italian National Institute for Overseas Exchanges, which would grant the Italian capital the overwhelming part of capital shares, practically full control over the bank. The project started to take shape as the American and Dutch partners were being replaced with the representatives of a Belgian company.

Following a long trail of attempts, ultimately the project on the creation of the Bank of Albania was finalized.

The Albanian governments authorized Mr Mufid Libohova, Finance Minister and Deputy Foreign Minister, to draft the agreement. The Italian side appointed Mr Mario Alberti, senior official, holder of the title of *Grand Ufficiale*, at the same time a representative of the Italian funding group. The draft agreement determined the rights and responsibilities of both sides, the scope of the Bank's activity, its seat, the leading bodies, the founding capital, the modalities and procedures to be followed for the creation of the bank, the manner of certification of procedural steps by the highest authorities in both countries, etc.

The text of the Convention, which was also the basic act sanctioning the creation of National Bank of Albania, was signed on 11 March 1924, and read as follows:

1. The Italian Group represented by Gr. Uff. Mario Alberti, will establish within ninety days from the ratification of this Convention the "National Bank of Albania" (Banca Nazionale d'Albania) with a nominal capital of golden franc 12,500,000 (twelve million and a half), split into 495 (four hundred ninety five) ordinary shares each with a value of 25 golden francs and in 100,000 (one hundred thousand) founding shares each with a value of 1.25 golden francs. Out of this nominal capital, 2,500,000 golden francs would be signed off immediately and the Bank would start its operations upon submitting proof to the Albanian Government of 2,500,000 golden francs or its equivalent being sent to a most famous bank in Switzerland.
2. Up to 49 percent of the capital shares may be owned by Albanian nationals.
3. The Central Directorate of the Bank will be seated in the Capital of Albania.
4. This Convention is valid for 50 years, with renewal possibility in agreement between the two sides.
5. The Bank will operate in harmony with the laws of the country and may open branches in Albania and abroad.
6. As provided in the Convention, the Bank will have the following rights:
 - a. to undertake all and any banking and financial operation;
 - b. to use the exclusive privilege of issuing the Albanian currency, with legal exchange rates and immovable and irreplaceable payment powers in Albania;
 - c. to hold state funds in deposits, to carry out treasury services and negotiate governmental loans on behalf of the municipalities.
7. Building, installation, flooring and other materials related to building the Bank's premises will be exempt from customs tariffs. Upon expiration of the concessionary agreement, the Bank's premises will become the property of the Albanian government at a price to be appraised whereupon such agreement has expired. The price will be set by a third party and will be subject to negotiations between the government and the Bank.
8. The capital and the private assets to be placed with the National bank of Albania will be risk free from confiscation, direct or indirect state sequestration or control orders, except for court warrants, as the Bank will be subject to the laws of the Albanian state.
9. The central Bank Directorate with premises in the capital of Albania will be comprised of two Italian representatives with definitive vote. The two Albanian members will be appointed by the Government. Until such time as the Bank will not be fully fledged, the Central Directorate may only have two members: one Italian with definitive vote, and one Albanian.
10. One member and one Commissioner to sit on the Bank's Administrative Council will be appointed by the Ministry of Finance of Albania.
11. The Bank will create a metal reserve (gold or silver in bars or coins) at 1/3 of the value of the issued banknotes.

Signed Mufid Libohova - Mario Alberti

VI. THE FOUNDING ACTS AND THE ESTABLISHMENT OF THE NATIONAL BANK OF ALBANIA

As a follow up to the already launched steps, the convention between the Albanian government and the Italian financial groups was signed in Tiranë in March 1925. The Italian financial groups committed the founding capital made up of 100 000 founding shares and 15 000 simple shares.

Some of the most powerful banks in Italy participated in the founding of the National Bank of Albania, such as:

- *Banca Commerciale Italiana*, in Milan, with 30 000 simple shares;
- *Banca Nazionale di Credito*, in Milan, with 30 000 simple shares;
- *Banco di Roma*, in Rome, with 30 000 simple shares; and
- Some smaller banks with 20 000 simple shares.

The group also included the representatives of:

- A Yugoslav holding, consisting of *Banka Zadruga* of Belgrade, *the Serb Bank in Zagreb*, the *Adriatic-Danubian Bank* in Belgrade and the *Serb-Albanian Bank* of Cetinjë, possessing 10 % of the capital or 50 000 simple shares;
- Some other holdings, as the *Commercial Bank of Basel*, with 50 000 simple shares and the *Overseas Belgian Bank*, a branch of *Société Générale* of Belgium, with principal offices in Brussels, with 25 000 simple shares.

Several Albanian nationals were share holders in the National Bank of Albania, all of them possessing 30 % of the capital. They were:

- Ajet Bej Libohova, 40 000 simple shares;
- Ekrem Bej Vlora, 58 000 simple shares;
- Nexhet Pasha Vlora, 52 000 simple shares.

In addition, there were also some Albanian nationals:

- Ugo Viali, 40 000 simple shares;
- Vincenzo Azzolini, 25 000 simple shares; and
- Massimo Aurelio, 30 000 simple shares.

The Bank would have a nominal capital of 12 500 000 golden francs, split in 495 000 simple shares at 25 golden francs each and 100 000 founding shares, at 1.25 golden francs each.

The overall shares of the Bank numbered 595 000, with *Credito italiano* holding the overwhelming part.

Notwithstanding the Convention provision of establishing the Bank capital shares at 51% to 49% in favor of the Italian side, there were subsequent changes in the ratio. Participation on the Albanian side fell to minimum levels. Shareholding by the Albanian side fell to 15 384 shares, representing only 3.1 % of the overall capital shares of the bank.

The Convention would be valid for 50 years, subject to extension of duration.

The Principal Offices of the Bank's Central Directorate would be established in Albania's capital. The Bank's activity would be subject to the laws of the Albanian state. According to paragraph 11 of the Convention, the Bank would create a metal reserve, in gold or silver, in bars or coins, equal to 1/3 of the value of the issued banknotes.

On 23 June 1925, the Albanian parliament passed the law on currency regulation, which granted to the Bank of Albania the exclusive right of coinage, i.e., producing banknotes and gold and silver coins, too. The Law was submitted to the Senate on 5 July 1925, and on 12 July 1925, in his capacity as the head of the Albanian state, Ahmet Zogu signed the Decree on the execution of the Law and the launching of the activity of the National Bank of Albania. The package contained the following acts:

- a) The Convention on the Bank of Albania ratified on 15 March 1925 and published in the Official Journal on 18 April 1925;
- b) The Convention on public works in Albania, with a budget of 50,000,000 golden francs;



The seat of the National Bank of Albania in Rome.

- c) The organic law on the National Bank of Albania;
- d) The law on currency regulation, with the amendments made by the two legislative chambers to the Convention and the Organic Law of the National Bank of Albania.

Following completion of necessary procedures and the adoption of the above mentioned acts, on 2 September 1925, in Rome, in the presence of shareholders and the official representatives of the Italian, Albanian and Yugoslav governments, the National Bank of Albania was inaugurated and its Administrative Council was elected. The council was comprised of the administrative counselors, the full time auditors, the part time auditors, the inspectors in Rome and the directors of the subsidiaries of the National Bank of Albania. The number of the Administrative Counselors would be 8, of which 7 foreigners and only one representing the Albanian government.

The Administrative Council was made up of:

- **Administrative Counselors:**

President of the Council:

Mario Alberti, Plenipotentiary Minister of Italy;

Deputy Presidents of the Council:

Frederico Brunner and Chevalier de Wauters d'Oplinter;

Counselors:

Pietro Fenoglio, Giuseppe Bianchini, Lale N. Zuber, Amadeo Gambino; a seat of a counselor to be appointed by the Albanian Government;

- **Permanent auditors:**

Vincenzo Azzolinni, Ajet Libohova, Francesco Motta;

- **Complementary auditors:**

Giuseppe Marino, Massimo Aureli;

- **Inspectors in Rome:**

Guido Cordova – inspector; Umberto Picardi – chief accountant.

- **Heads of subsidiaries of the National Bank of Albania:**

Co Directors:

Giulio Gaudenzi and Loro Muzhani;

Deputy Directors:

Armando Battisti, Luigi Magnolli, Ettore Melis;

Procurators:

Ugo Olmastroni, Rafaele Razzini, Francesco Evangelista, Giuseppe Romani, Giuseppe Terrusi.

Although its founding capital was owned by public and private foreign entities, the National Bank of Albania was an Albanian institution. Testimonies to the authenticity of the Albanian Bank of Albania are wide ranging in nature:

Firstly, its very name attests to its Albanian authenticity;

Secondly, it is the core of its activity, i.e., the coinage of banknotes and metal money, too, underwritten by such legal pre-requisites and powers that are only vested in institutions embodying the sovereignty of states;

Thirdly, the fact that its activity takes place on the Albanian territory;

Fourthly, its principal offices are seated in the capital of Albania;

Fifthly, the application of Albanian legislation on the handling and resolution of conflicts with third parties and, in close connection with this, the institutional obligation to implement and abide by the Albanian law;

Sixthly, acknowledgement of the right to hold the deposits of the Albanian state;

Seventhly, its mission to serve as the treasury of the Albanian state;

Eighthly, the participation of Albanian state with its own assets and its right to intervene through appointing its representatives on the Administrative Council;

Ninthly, the publishing of the minutes of the Assembly meetings and every other bank transaction in the Official Journal of the Albanian State, and above all the recognition of the Bank by Decree of the President of the Albanian State.

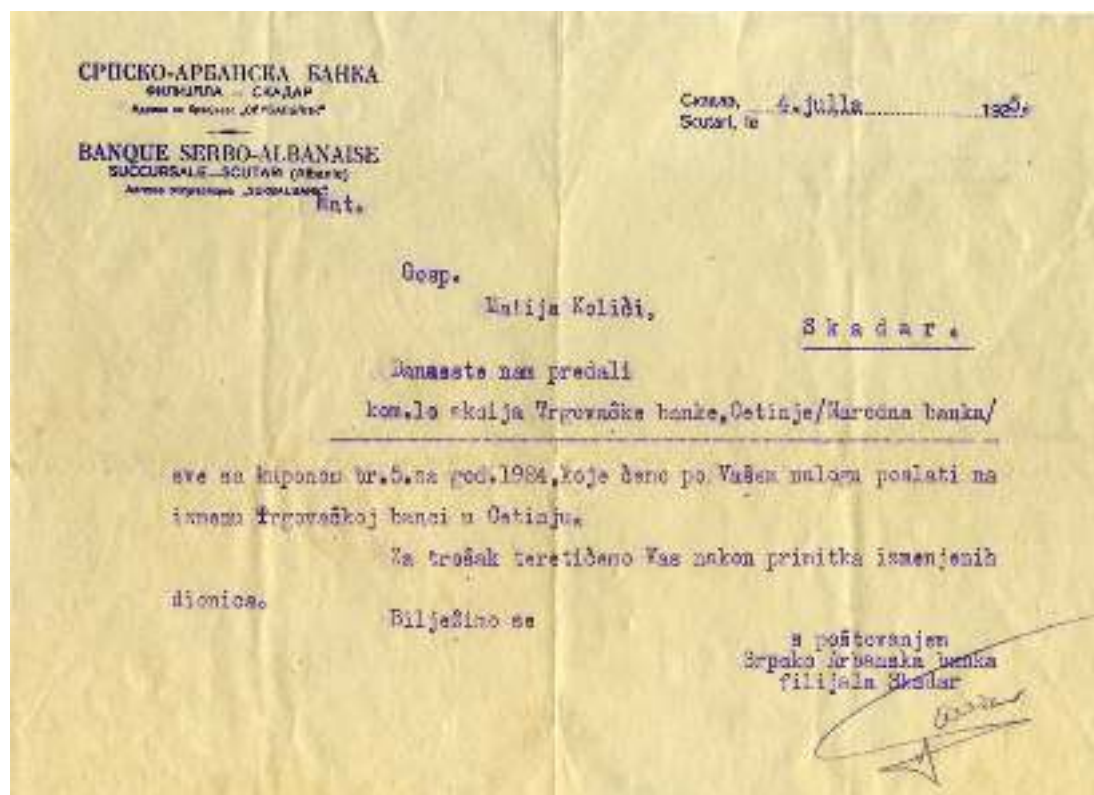
The National Bank of Albania, duly established upon legal adoption of its founding acts, is considered as the reinstatement and continuation of the first National Bank of Albania, created on 4 October 1913, which only served for a short period of time because of the outbreak of the First World War.

In the context of the banking history in Albania, October 1913 and March 1925 mark two particularly important events in the overall progress of the Albanian state, i.e., its consolidation and the acceleration of the country's economic development rates.

VII. ATTEMPTS BY OTHER FOREIGN BANKS TO MAKE A WAY INTO ALBANIA

Over 1920 - 1939 there were a number of attempts by other foreign banking institutions to make their way into Albania. Aside from the attempts of 1920-1925 and the continuous interventions and discussions which, as mentioned above, saw the involvement of the League of Nations, too, mention can be made of expressions of interest by the British, French, Belgian, Swiss, Dutch, Yugoslav, Greek and other undertakings. Representatives of such firms were persistent in their efforts, despite the numerous hardships they had to face.

In February 1925, Albania was being visited by a group of British entrepreneurs of the Midland Group. The representatives of this group were the ones who designed the scheme for a concessionary agreement on the creation of the Bank with a capital of 500 000 starlings. However, the negotiations which indirectly touched upon and got stuck on the amount of bribery to be paid the Albanian officials, failed. One month later, in March – April 1925, it was the Serb-Albanian Bank, with its seat in Cetinjë, and the Bank of Athens that made attempts to settle in Albania. The Bank of Cetinjë received the relevant authorization on 3 April 1925 and was established in May of the same year.



Document issued by the SERB-ALBANIAN BANK, Shkodër 1925.



Bank of Naples, Shkodër.



Bank of Naples, Tiranë.

On 6 May 1934, the affiliate of the Export Bank, with its principal seat in Belgrade, started operations in Tiranë. In November 1937, the Bank of Naples arrived and soon became a strong competitor of the National Bank of Albania itself.

In addition, Albanian entrepreneurs also made strong efforts to be involved, alongside foreign capital, in the initiatives for the creation of banks in Albania. In accordance with the lending policies of the National Bank of Albania for local undertakings, in 1927 Albanian entrepreneurs residing mainly in the region of Korçë, announced their interest on the creation of a bank with local and foreign shareholders, too.

In June 1931, Mehmet Konica, former Minister in Ahmet Zogu's Government and Mark Kakarriqi, put forth another proposal. Urged also by representatives of British entrepreneurs, they proposed the creation of a bank called the "*Anglo-Albanian Bank Ltd.*"

At that time, along the same lines of identifying new positive alternatives to the country's development and the strengthening of the banking and financial market, several businessmen from Tiranë and Durrës appointed a commission made up of Isuf Beshiri, Aleksander Hobdari, and Vlash Dovana, to draft the by-laws for the establishment of a commercial bank of Albania, with principal seat in the town of Durres. The by-laws were to undergo preliminary discussion in the Congress of the Chamber of Commerce, but the project did not see any progress; in general, such efforts wound up without success.

Up to the time of the fascist occupation, Albania's National Bank had established 8 branches and agencies, the Naples Bank 4 branches and agencies, the State's Agricultural Bank 4 branches and agencies and the subsidiary of the Export Bank of Belgrade only one branch.

VIII. BRANCHES OF THE NATIONAL BANK OF ALBANIA AND THE INAUGURATION OF ITS CENTRAL SEAT

The National Bank of Albania extended its activity over almost the entire territory of the country, through establishing branches or affiliates. In Durrës the first branch was opened on 29 November 1925, in Shkodër on 1 November 1926, in Vlorë on 15 November 1926 and subsequently branches were opened in Berat, Elbasan, Korçë, Prizren (following Albania's occupation by Italy) and Sarandë.

After 13 years of the creation of the National Bank of Albania, a special event was recorded in its history. On 30 October 1938 was inaugurated the new principal seat of the General Directorate of the Bank of Albania. Its new premises were built on the "Skënderbeg" square in the centre of the city. This day marked the transfer of the Bank's office from Durrës to Tiranë. The building was designed by the Italian architect, Vittorio Ballio Morpurgo. The architectonic style is characteristic of the rationalist trend that prevailed in Europe in the first half of the last century. The style is noted for its spacious and voluminous proportions and the bold lines of the facades, which are still easily perceived in the building of the Bank of Albania. Its body has the shape of an arch dictated by its position on the city's main square. The main entrance is a vast portal, resting on massive columns spanning the full height of the facade. The outside of the building is decorated with murals made of baked clay in its characteristic color, giving the building a dignified appearance in its entirety. It has been and still is an outstanding piece of the architecture and urban lay-out of the city of Tiranë.

In 2011, some of the component parts of the Bank of Albania were marked for rehabilitation. The interventions were designed by a studio of Italian architects based on the initial blueprints of the building.



Branch of the National Bank in Durrës, during the 1920s, before the new seat near the port was built.



Branch of the National Bank during the 1920s, at Pjaca Street in Shkodër.



Branch of the National Bank in Vlorë in 1915.



Branch of the National Bank in Vlorë during the 1920s, before the new seat was built at Sheshi i Flamurit.



Branch of the National Bank in Korçë during the 1930s.

IX. THE START OF ACTIVITY BY THE NATIONAL BANK OF ALBANIA AND ISSUING THE FIRST CURRENCY

The Bank officially started its activity on 12 September 1925. As already mentioned, there was no national monetary system in Albania before the bank was established. Golden or silver coins were used in the place of banknotes. Payments on various commercial transactions were made directly in gold or silver *napolons*. For this reason, Albania did not experience the financial difficulties of the First World War to the full extent as the other countries of Europe did. By comparison with other countries, Albania had amassed a considerable reserve of silver, gold and foreign money. This shows that the National Bank of Albania did not start its operations in vacuum. However, the leaders of the bank thought, rightly so, that it was time to coin and put in circulation the official Albanian currency. The decision was to use the golden franc, which was subsequently issued in a variety of denominations. The smaller denominations were the *lek* and the *qindark*: 1 (one) golden franc was equal to 5 (five) leks and 100 (one hundred) *qindarks*. The larger denominations were the coins of 5 (five), 20 (twenty) and 100 (one hundred) golden franc.



5 Franka Ari (Golden Frank), issued in 1925.



100 Franga Ari (Golden Fr), issued in 1928, bearing the design of a double-headed eagle.

100 Franga Ari (Golden Fr), issued in 1927, bearing the portrait of Ahmet Zog.



Under the Agreement the Italian side (the Italian financial group) had the right to issue banknotes. According to the agreement, the Italian side would receive 50% of the profits made from the coinage of and issuing the banknotes and the rest of the 50% would be received by the Albanian state.

The environment in which the Bank of Albania operated was rather specific. Given the frequent change of foreign banknotes, from the times of the Ottoman Empire to the First World War, the population had learned to prefer the golden and silver coins over paper money. Under these circumstances, the Bank applied the so-called semi standard, or the standard of golden bars, golden money and hard currency, which, at that time, was also adopted by other countries. The application of this standard provided the opportunity to convert banknotes into gold or foreign hard currencies such as dollars, lira, sterlings, francs, etc.

The exclusivity to issue banknotes was vested in the National Bank of Albania which, based on the law on the regulation of currency, had also the right to coin golden money in denominations of 100 golden francs, 20 golden francs and 10 golden francs, as well as silver denominations of 5 golden francs, and 0.50 golden francs.

The Bank's articles of association and its organic law provided that banknotes could be exchanged with the local golden currency, foreign currencies and gold and bank cheques. Exchange with gold currency of the Albanian state or with foreign currencies could take place only in the central seat of the Bank, in Durrës. Exchange in foreign currency and gold coins should comply with the rules established by the Administrative Council of the Bank and only upon the Council's authorization.

To cope with the foreign trade deficits and to preserve the gold reserve, the Bank prohibited exportation of the gold abroad, with the exception of cases authorized by the Bank and for purposes of coining the golden currency of the Albanian State.

In accordance with the provisions in the Italian-Albanian Agreement on the founding of the National Bank of Albania, the Bradbury Wilkinson & Co., Ltd., in London was contracted to produce Albanian banknotes and metal coins. The first supply of banknotes was shipped to the Bari Branch of *Banka d'Italia* in 19 December 1926. The first banknotes in denominations of 20 gold francs, at a total value of 5,000 golden francs, were put in circulation on 28 February 1926. In the course of the year, other denominations were put in circulation, mostly those of 1 golden franc (5 leks), 5 golden francs, 20 golden francs and 100 golden francs. In the same year, on 10 March 1926, nickel coins of 0.5 leks with a total value of 3331,000 golden francs were put in circulation.

On 31 August 1927, golden denominations of 100 golden francs, with a total value of 27,000 golden francs, were put in circulation. The timeline for putting banknotes in circulation spanned the year 1928, too. During this year, banknotes with a total value of 10,095,000 golden francs and coins with a total value of 422,000 golden francs were put in circulation. Consequently, a considerable part of the old currencies were replaced by the new money; however, the silver coronas remained longer in use and

continued to be used for quite some time. The issue of withdrawing and replacing them was discussed for many years. The Congress of Albanian Merchants, in its meeting of June 1930, argued in favor of replacing these coronas, among other things, also because the absence of metal coins had caused difficulties in the domestic transactions. This fact had contributed to the artificial increase of the price of silver coronas. An agreement between the Albanian and Italian government, signed in March 1936, provided for 1 (one) million golden francs to be put in circulation, mitigating, but not resolving the situation completely.

X. THE ACTIVITY OF THE BANK OVER 1925-1939

The National Bank of Albania was, in the Albanians' view, an important factor of economic progress and independence. It was their thinking that the Bank would help accelerate the rates of economic and social development and improve the people's wellbeing and prosperity. However, the Bank itself did not have an easy existence.

In 1926, which may be considered the first year of the Bank's activity, there was a satisfactory increase in the Bank deposits. They amounted to 1,734,000 golden francs. By issuing banknotes, the Bank managed to accumulate considerable amounts of gold and foreign currencies. For example, over the last quarter of 1925 to 31 December 1926, when the Bank's first financial exercise closed, the bank issued banknotes which were exchanged for gold at an amount of 277.000 golden francs and foreign currencies convertible in gold (dollars, sterlings, and Swiss francs) at an amount of 2.962.000 golden francs. During 1927, through issuing additional banknotes, the Bank accumulated gold and foreign currencies convertible in gold, in the amount of 13.464.000 golden francs. The trend continued from year to year and in 1936 the value amounted to 20,775,000 golden francs, the highest level ever.

A part of this pool was made up of the deposits of public entities, the banks and the financial institutions that used the resources of the loan SVEA of 100,000,000 golden francs given to the Albanian Government by Italy to fund public works, to cover the deficit, etc. An additional factor was the pool of the founding capital of the Agricultural Bank of the Albanian State. This pool was created in accordance with the relevant acts adopted by the Albanian government, respectively in May 1930 and December 1936. The bank deposits collected almost the entire amount of hard currencies available on the Albanian market, which in 1922 was estimated to be between 50 and 100 million golden francs. It also collected the foreign currencies that made their way in Albania every year, in particular, through emigrant remittances, which at the time were estimated at about 6.000.0000 US dollars annually. The various operations launched by the Bank, such as the collection of gold and silver objects, decoration handicrafts and jewelry, contributed to the increase of gold reserves in the Bank's safes.

Later, the trend would not only slow down, but would also fall to the lowest levels. For example, in the year 1938, the bank deposits had fallen to 12,155,000 golden francs.

It should be pointed out that over 1925-1939 the Bank invested a good portion of its monetary resources in bonds and other titles issued by the Italian state. To give an idea of the proportions of this activity, suffice it to mention that of 5,300,000 golden francs in 1926, the resources that the Albanian Bank invested in the titles of the Italian State amounted to 8,500,000 golden francs in 1938.

At this time, the Albanian government turned to the bank to obtain a modest loan of 2,500,000 golden francs to cope with the needs of the budget, but the response was negative. The Bank's credit policy aimed at supporting primarily the Italian businesses in industry, farming, construction, trade, etc., without neglecting some of the Albanian business entities either, in particular those in preferential relations with the Italian businesses.

The bank's financial statements, in each financial year from 1926 to 1943 showed that the issuance of banknotes was based mainly on the saving deposits of Albanian citizens, the purchase of gold and foreign hard currencies and the lending operations. Most recently, the National Bank of Albania featured on its side of assets an amount of 8.062.826 golden francs, serving as coverage for the banknotes that the Bank had put in circulation. As is the case with all emission banks, the National Bank of Albania had the right to issue banknotes, which were legal tender within the boundaries of the country. The Bank would use this right by trying to tie a certain proportion of the amount of issued banknotes to the gold and silver reserves. As was the case in many countries, Albania, too, had adopted the rule according to which "the Bank would maintain a metal reserve (in gold and silver, in bars and coins) equal to 1/3 of the value of issued banknotes." This rule was enshrined in Article 11 of the Convention concluded between the Italian financial group and the Government of Albania, on 15 March 1925, and in Article 22 of the Bank's Statute.



Savings Book – NATIONAL BANK OF ALBANIA, Tirane 1937.

In 1927, Amadeo Gambino, an influential member of the Bank's Administrative Council, given the poverty level in the country, the circulating cheques and the slow rate of monetary circulation, estimated that, on the average, each citizen in the country made do with an amount of 25 golden francs; consequently, the overall currency amount was estimated at 20 million golden francs. According to him, the amount would increase in tandem with the country's economic growth and would arrive at 45-50 golden francs per person, or an overall amount of 32 - 40 million golden francs which was, however, not achieved.

The Bank's subsequent progress and operations would continue to be influenced by the large scale crisis of 1929-1933. The consequences of the crisis in Albania continued until mid 1935. The Albanian franc was devalued by 5-6%, causing panic among the merchants and industrialists who rushed to exchanges banknotes with Albanian golden money.

Various sources testify that before the Second World War, the Albanian franc was among the strongest currencies in Europe. For example, in 1939, the money in circulation was covered by foreign hard currencies at 245.93 %, of which 71.94 % gold coverage. The experts of the time reason that this strong coverage is explained by the strong deflationist policy of the National Bank of Albania, which among others, maintained the circulation levels below the needs of the country, had declared compulsory the collection of the Albanian gold and silver, had increased the value of the franc and had effected the redistribution of national income. Using the language of figures, the deflationist policy was expressed in the reduction of the amount of money in circulation. For example, out of 14 020 000 golden francs in circulation in April 1933, the amount fell to 10 529 000 golden francs in 1938; or of the approximate 325 000 golden francs exchanged averagely every year, in the first years of the Bank's activity the amount decreased to about 8 000 golden francs in the period 1932-1933, only to fall at 2 220 golden francs in 1934-1935. The deflationist policy would continue in the years to come, too.

XI. THE NATIONAL BANK OF ALBANIA DURING THE SECOND WORLD WAR

Following 7 April 1939, the activity of the National Bank of Albania was subject to the special circumstances created by the country's occupation. Formally, the Bank became subject to the provisions of the Albanian-Italian Economic, Customs and Currency Convention. It adopted serious changes on Albania's monetary and lending system, which was transformed into an appendix to the Italian monetary and lending system. Certain banking groups in Albania, taking advantage of the special war circumstances, got involved into a powerful competition over the control of the credit system. In particular, they struggled to expand the banking network, to increase their market share over deposits and lending, etc. Caught in the middle, the National Bank of Albania made vigorous efforts to maintain its dominant position in the financial and banking market by increasing the number of branches and agencies in the main areas and the largest population in the country. However, it was exposed to numerous hardships created by increased competition from the Bank of Naples, which had started its operations in Albania in the year 1937 and had gradually become very strong.

At that time, a whole chain of developments occurred, some of which with impact on the existence and operations of banks in Albania. Mention should be made primarily of the acquisition in May 1939 of the State's Agricultural Bank by the Bank of Naples, which had become extremely strong, and the closure in 1939 of the subsidiary of the Belgrade Exports Bank which had been severely weakened by the effects of the imposed competition.

Another development involved the opening in Tiranë of the subsidiary of the National Labor Bank (*Banca Nazionale del Lavoro*), which became very soon a powerful competitor of the National Bank of Albania and the Bank of Naples, too.

Meanwhile, with the beginning of 1941, the idea of the National Bank of Albania extending its activity in Montenegro was launched. This proposal involved the opening of Bank subsidiaries in Cetinjë and Tivar as an initial step; subsequently an Albanian-Montenegrin Bank would be established which would issue a common currency called *ALMO*, an acronym for Albania and Montenegro. The project never came into being.

The war period forced the National Bank of Albania to pursue an inflationist policy which increased at high rates the amount of money in circulation. The balance sheet of the Bank of Albania on 31 December 1944, showed that the increased portion accounted for 381 592 000 Albanian francs; i.e., of the 11 939 000 Albanian francs in circulation on 6 April 1939, the amount had increased to 393 492 000 Albanian francs on 31 December 1944.

With Italy's surrender, the fleeing Italian authorities issued on 11 September 1943 an order for the banks to stop their operations, but for a certain category of operations that the National Bank of Albania could continue to run.

The order which remained in force until on 20 September 1943 totally paralyzed



National Labor Bank (Banca Nazionale del Lavoro) in Tiranë, 1940.

the entire banking system, causing great damages to the Albanian economy. Based on this order, the banks stopped complying with withdrawal request by the population and refused new deposits. The bank accounts were frozen and so were the lending and credit transactions. The two Italian banks, the National Labor Bank and the Naples Bank closed their activity and presence in Albania. The National Bank of Albania, which remained in operation, was in a very difficult position due to the situation created by the Nazis occupation of the country.

In 12 September 1943 the German army occupied Albania. According to the Order by the Transitory Executive Committee of the National Bank of Albania, the bank resumed its operations with primary focus on provision of funding and credit to the German Military Command and the new Government installed in the country. The German Wehrmacht, until the end of 1943, borrowed 50 million Albanian francs in credit; until October 1944, the German army borrowed an additional 99 million golden francs. The National Bank of Albania was forced to become the sole funder of the Wehrmacht and the German Military structures.

The German authorities, through their Ministry of Foreign Affairs, ordered the sequestration of the gold reserve, the banknote reserve, the printing plates and the foreign currency reserve of the National Bank of Albania deposited in Rome. The banknotes were flown to Tiranë on aircrafts; the gold and silver reserves and the printing plates were shipped to Berlin. On 16 September 1943, the decision making body of the National Bank of Albania, called the Transitory Executive Committee, adopted the document, "On the settling of the relations between the Albanian State and the National Bank of Albania," according to which the Bank would transfer to the Albanian state until 10 September 1943 all of its profit and the counter value of the hard currencies in circulation, would put in circulation until the same date 4 % of the amount of money in circulation, etc. On 3 November 1943, Government requested the return to Albania of the gold reserve sequestered in Rome on 16 September 1943 and deposited in Berlin. In the months of November-December 1943, Albanian-German negotiations were held in Berlin on the economic and banking issues, which focused on the return to Albania of the treasure (the gold and silver reserve), the hard currency reserve and the printing plates that were sequestered in Rome. These negotiations also dealt with the Bank loans to the German army, the exchange rate between the Albanian franc and the German mark, etc. Discussions were taken up without result several times during the first half of the year 1944.

In the months of September –November 1943, the National Bank of Albania, was forced by the German military authorities to deliver tens of additional millions of Albanian francs in "loans". During 1944, the bank continued to fund the German army, which on 30 October 1944 took hold of the entire treasure of the National Bank of Albania, and the entire reserve in golden francs and Albanian francs in the Bank's branch in Vlorë (which also held the reserves of the branches of Gjirokastër and Sarandë), and the branches of Korçë, Berat, Elbasan, Prizren, Shkodër, Tiranë, etc.

By: Prof. Dr. Ksenofon Krisafi

Period 1944-1991

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I. STATE BANK OF ALBANIA

The liberation of the country on November 29, 1944, found Albania in a backward state, economically and culturally, but also severely destroyed by the war. Albania entered a new historical period. In these circumstances, one of the pressing problems was to restore a state of normality, to reconstruct the country and to restore the economic and cultural life. To deal with the numerous problems, among other things, considerable material and financial means were needed.

A few days after the liberation of Tirana, the district's National Liberation Council, following instructions from the Interim Anti-Fascist Government, headquartered in Berat at the time, decided to block the activity of the National Bank of Albania. At the same time, the archives of this institution were also blocked and a partisan army unit was assigned to guard the building of the State Bank of Albania.

Among the first acts passed after the liberation, was also the one related to the activity of the Bank. On December 15, 1944, the Presidency of the National Anti-Fascist Council adopted Law No. 20, dated 15.12.1944, which prohibited the export of gold, silver, platinum and precious stones. The law aimed at stalling the further inflation of the Albanian franc, controlling gold smuggling in the domestic market and preventing the sale of the franc outside the country.

State control on production and distribution, which can be considered a preparatory measure for the nationalization of the main means of production, was also established on December 15, 1944. The mines and the assets of political opponents who had fled from the country were also nationalized and a month later, the law on the confiscation of the assets of Italian and German citizens in Albania was also adopted. The ownership of the assets of 111 foreign shareholder companies passed, without any compensation, to the state.

On January 13, 1945, the Presidency of the National Anti-Fascist Council adopted the **law on the cancellation of the convention of the State Bank of Albania** and its stock and at the same time, it was nationalized. The state did not recognize the obligations of the former National Bank of Albania toward third parties with regard to the deposits of gold and foreign currency, and the agreement of March 1925 between the Government of Ahmet Zogu and the Italian financial group was canceled.

On January 13, 1945, the organic law of the State Bank of Albania was adopted, with 8 chapters and 26 articles, signed on behalf of the Presidency of the National Anti-Fascist Council by its Chairman Dr. Omer NISHANI and Secretary Koço TASHKO. Sejfulla MALËSHOVA was appointed President of the State Bank of Albania and Kostandin BOSHNJAKU, known for his professional and organizational skills, was appointed general Director. He has left indelible impressions in the memory of the former employees of the Bank and is remembered with respect by the younger generations too.

During 1945, 2 specific decisions were also taken to wind up the operations of

BANKA KOMBËTARE E SHQIPNIS

BANKA E SHTETIT SHQIPTAR
BANCA NAZIONALE D' ALBANIA

VDEKJE FASHIZMIT
LIRI POPULLIT

KAPITAL FR. A. 12.500.000 CAPITALE

Tirana 1 Janar 1946

DREJTORISË SË BREGËS S'ONË

SHKODER

PERSONELI

Shtesa vjetërisë konvencionale dhe rroga

z. Asip Jukagaj - Nisur në 1 I. 45

Ne bazë të Qarkores "Personeli" Nr.5 me datë 14 Shtet -
tuer 1945, të nënparlamentit i shtet vjetërisë konvencionale
për periudhën e shërbimit gjatëmuajor, prej datës 1 Korrik deri
me datën 31 Dhjetuer 1945, si edhe për klasifikimin "shumë i mirë"
gjithashtu dhe rroga, konform tabelës së orientimit të daktimit
të rrogave, si vijon:

....⁶.... muaj për periudhën e shërbimit nga data Korrik deri me
31 Dhjetuer 1945.

....⁷.... muaj për klasifikim "shumë i mirë".

....⁶.... +⁴.... vjet e⁶.... muaj gjithashtu vjetërisë konvencio-
nale. Si mban vjetërisë në fjalë rroga bazë Pr. Shq.^{1.100}....
plus shtesë për kualifikim grade " "⁷....
Gjithashtu rroga bazë shumë Pr. Shq.^{1.100}.... ✓

Shtesa e vjetërisë dhe e rrogës konsiderohet e një me prej
datës 1 Kallimor 1946.-

DREJTORIJA E PËRGJITHSHMË

SHKODER | BREGËS S'ONË | DREJTORIJA E PËRGJITHSHMË | VETËM PËR SHKODERIN |

Document of year 1946, illustrating the transformation of the NATIONAL BANK OF ALBANIA into the STATE BANK OF ALBANIA (see stamp in red).

foreign banks in Albania. On August 12, the National Bank of Labor (Banca Nazionale del Lavoro) closed down and was liquidated; on November 6, the Bank of Naples (Banca di Napoli) closed down and was liquidated, too.

On 21 January 1945, the ceremony of the inauguration of the State Bank of Albania took place. The relevant speech was given by Sejfulla Malëshova, in his capacity as Bank President.

The State Bank of Albania started its operations on January 22, 1945, within 10 days of the adoption of the law. The management of the State Bank of Albania was vested in the Council of Administration, appointed by the Council of Ministers upon the proposal of the Minister of Finance. Bank activity was controlled by the Audit Commission appointed by the Minister of Finance. The Bank's balance sheet, was approved by the Council of Administration, controlled by the Audit Commission and sent to the Ministry of Finance. Based on its organic law, the state was the guarantor of all actions carried out by the Bank of Albania.

Among the key functions of the State Bank of Albania, according to the organic Law of 13 January 1945, mention can be made of:

- the issuance of banknotes for circulation, which had to be guaranteed by an amount equal to at least one-third of gold and silver deposit (in coins or bars) which were deposited inside or outside the state, in foreign currencies, etc.
- the provision of short-term credit to private companies and public entities, in the form of short-term advances in current accounts, advances granted in the form of mortgages on Albanian public funds and advances for documents of traveling goods. The government could be given an advance or be provided a credit current account without interest, for an amount up to 30 million Albanian francs;
- cashiers service and collection service for private and institutional accounts;
- cash service for the state and the state treasury;
- center for the maintenance of current accounts, accepting savings deposits and maintaining deposits in cash, securities, gold and silver coins, etc.;
- the sale of gold, silver, and precious metals;
- foreign currency exchange for its own purposes or for the purposes of third parties, as well as the acceptance of deposits in foreign currency;
- signing of loan agreements;
- establishment of warehouses to store goods from seizures in cases of loans not paid on time by the clients.

So, in terms of the existence of a single bank, the National Bank of Albania carried out not only the central bank functions, but also those of commercial banks. Later we will make an overview of some of the main functions that the National bank of Albania performed as a commercial bank. Those were:

- **Bank credit;**
- **Bank control on the finances of investments;**
- **The system of payments through wire transfer;**
- **The organization of international payments.**

i. Bank Credit

The State Bank of Albania, virtually the only bank operating in Albania, among others, also possessed the monopoly of bank credit. According to the organic law of January 1945, it had the right to implement various forms of short-term lending available at that time, in the form of advances, discount in securities, etc., as well as to make loan negotiations.

In the first year of its operations, bank credit was dedicated almost entirely to the private sector, mainly for traders. Lending to the public sector began in late 1945 and for the cooperatives' sector in early 1946. The proportion of credit going to the public sector changed rapidly, beginning in January 1946. In March, the credit to the public sector and cooperatives accounted for 37 percent of credit, versus 63 percent in the private sector. In late 1946, the state sector and cooperatives benefited 98 percent of the credit, while the private sector only 2 percent.

In September 1948, the ordinance of the Council of Ministers No. 151, dated 20.09.1948 was adopted, establishing a new system of lending, which put emphasis on lending to state economic enterprises within an already approved credit plan. Lending to the private sector, in particular for medium or long term loans, virtually became extinct.

Lending to the economy was an important function of the National Bank of Albania. The credit system adapted to the new conditions and orientations, which had a political nature. Credit objects and rules were defined through orders, which, although prepared by Bank specialists, were issued by the Council of Ministers. The State Bank of Albania, with its financial and economic policy, was gradually transforming into a powerful lever for strengthening and expanding the state and cooperative sector of the economy.

The new bank credit system, set in September 1948, based on its content, was a significant reform in the activity of the National Bank of Albania. In the new banking credit system, the basic principles of banking credit were set, under which the state enterprises and other economic organizations, were credited within the credit limits planned for certain works and verifiable documented needs. For any given loan, concrete return deadlines were set, while the loan had to be guaranteed through goods.

In 1977, lending activity for the State Bank of Albania was regulated through a series of regulations of the Council of Ministers:

- Order No. 2, dated 15.03.1977, "On short-term loans to enterprises;"
- Order No. 3, dated 15.03.1977, "On long-term loans for the expansion of production in enterprises;"
- Order No. 4, dated 15.03.1977, "On long-term loans to improve living conditions of working people in the towns and countryside."

Credit for enterprises and agricultural cooperatives was regulated through the relevant provisions and was implemented by the Agricultural Bank, beginning on January 1, 1970.



Propaganda poster for the purchase of state loan bonds, Tiranë 1954.

a. Short-Term lending for enterprises

Short-term lending for the public sector came to grow constantly and had the biggest share of bank lending in the economy. Short-term loans at the end of 1989 amounted to over 6.4 billion lek, from about 7.4 million of total loans, or about 86 percent of the total, from about 192 million lek at the end of 1950 and 1.3 billion lek at the end of year 1960.

Short-term lending was aimed at meeting the temporary financial needs of economic entities. Short-term lending objectives evolved with time, ranging from advances and discount titles at the beginning of its functioning, to the fulfillment of needs with money conditioned to be used to carry out the purposes of the plan, depending on the characteristics of different companies.

In 1982 the National Bank of Albania gave short-term loans to enterprises for these purposes:

- a) for the purchase and gathering of materials and seasonal goods;
- b) to afford the costs of the seasonal production process;
- c) for materials, finished products and goods in production, construction, trade enterprises, etc.;
- d) for the planned exportation of goods by foreign trade enterprises;
- e) for the actual amounts of imported goods and materials in the enterprises dealing with material and technical supplies;
- f) for large scale repairs, in accordance with the depreciation item-line featuring in the company's plan;
- g) for the bill of quantities submitted to clients in relation to the volumes of performed work;
- h) for goods shipped and works/services supplied to customers or clients outside the jurisdiction of the banking sector.

For temporary needs, when deemed necessary, credit was provided to purchase materials, such as raw materials, primary materials, auxiliary materials, fuel and manufacturing process materials, the cost of which temporarily outweighed the company's cash flow. This loan was provided by the branch of the Bank for a term of up to six months, but the General Directorate of the State Bank of Albania had the right to extend the repayment term for up to three months.

When it came under the attention of the State Bank of Albania that enterprises were buying or producing materials and/or goods in excess of the fixed amounts, when such goods and materials risked a slow turnover, or were produced at loss rates unforeseen by the entities, the Bank withdrew from providing further loans.

In cases when the Bank found that the loan was not being used for the purpose given, it had the right to immediately suspend further lending and demand the return of the loan before the deadline given for the credit. At the same time, when the loan was not returned within the deadline or could not be guaranteed through

material assets, the State Bank of Albania had the right to suspend and/or restrict the provision of further credit or demand its immediate return. For the credit which had not been returned in time, the Bank's interest would double.

In addition to changes in the lending requirements, in accordance with the stages of economic development, the Bank resorted to those types of lending, which were seen as more appropriate. Among the technical forms mostly used were:

- **Surplus lending** depending on the planned surplus for loans made at a certain point in time. This method was widely used in production enterprises and functioned through the company's current account.
- **Accrued turnover** lending was used not by considering the excess creditable turnover values of material goods, but the eventual entry and exit of these materials in the company books. This form of credit was used mainly for marketing enterprises.
- **Differential lending**, through which the State Bank of Albania treated the state economic enterprises and cooperative organizations in differentiated manners. For state economic enterprises and cooperative organizations that fulfilled the targets as planned, but were experiencing financial difficulties for objective reasons, the Bank would give loans for temporary needs with a maximum term of 30 days for payment of invoices and bills of quantities, as well as the payment of salaries, etc.

Loans given by the Bank were classified into three types:

- **Planned Loans:** These loans were given to enterprises to meet their production and turnover plans. This category included loans against planned reserves. For those loans, specific deadlines, that had to be respected, were set for each objective.
- **Payment loans:** This category consisted mainly of credit for shipped goods. Nearly all enterprises benefited from this loan. It was given without limits and was regulated by specific rules.
- **Unplanned loans:** This category involved loans for temporary needs. They were given to enterprises for contingencies, i.e., the emergence of additional unforeseen needs, due to objective reasons outside the purview of the enterprises' scope of work.

b. Long-term bank loans to expand production of enterprises

Unlike short-term loans, long-term bank loans in the state sector had very limited use, because investment funding was the sole responsibility of the state budget.

From September 1956, based on Order No. 13, dated 13.09.1956, the State Bank of Albania, in order to facilitate the use of new techniques for the mechanization and improvement of production technology, provided long-term loans to enterprises and economic entities to cover relevant expenses, when the latter were not provided in the investment plan. Long-term loans for the development of a new technique were given in limited amounts ranging from 50 to 100 thousand lek, with a short term repayment of no more than three years. In addition to this, the Bank's requirements were too strict and therefore the requests for this loan were few. Statistics related to the use of long-term loan balances clearly indicate this fact. The highest outstanding balance of long term loans to enterprises was only 9 million lek, at the end of 1975, at a time when the outstanding loan balance for agricultural cooperatives was about 445 million lek.

Subsequent changes led to further deterioration, with the outstanding loan balance at the end of 1980 becoming "zero," and resurfacing in 1987 in the amount of just over 1 million lek and in 1989 to about 2 million lek.

The radical change of the government's attitude on this loan happened in 1990, with the Order No. 3, dated 25.05.1990 of the Council of Ministers, which is discussed below.

c. Short-term bank credit for agricultural cooperatives

Until 1961, the State Bank of Albania provided agricultural cooperatives with short-term loans to cover the costs of agricultural and livestock production, mainly for the purchase of materials and services from third parties.

In 1961, experimentation took place in some districts with one month short-term loans, against the days of work actually performed by members of agricultural cooperatives, reaching up to 50 percent of the amount specified in the financial plan for a working day. From January 1, 1965, this form of credit was extended to all agricultural cooperatives, while advance payment rose to 65 per cent of the amount set in the financial plan for a working day.

Starting January 1, 1967, the concept of loans against working days changed, due to being considered a wrong (revisionist) attitude. It was replaced by the advance payment scheme against predicted revenue realized from agricultural cooperatives; however advance payments could not exceed 70 percent of the cash income planned to be allocated to members during the year.

d. Long-term bank credit for agricultural cooperatives

Agricultural cooperatives benefited mainly from investment loans of a manufacturing character, without any specific upper limit. Upper limits were fixed depending on the economic and financial situation of each particular agricultural cooperative.

Agricultural cooperatives benefited from long term loans for the following main activities:

- the construction and refurbishment of output producing objects (sheds, stables, warehouses, hot beds, greenhouses, etc.);
- the construction of irrigation canals and other improvement projects that belonged to the agricultural cooperatives themselves;
- the creation of blocks of fruit trees, olive trees, vineyards, citrus, as well as the provision of services until they went into production;
- the purchase of machinery (such as tractors, combines, etc.), of various agricultural tools, vehicles, etc.
- the breaking of new arable lands, and carrying out intensive works using state owned machines (SMT - Car and Tractor Station);
- the purchase of perennial seeds;
- the building of electricity generating works towards the electrification of villages;
- the purchase of livestock and power animals, birds, bees and beehives.

Loans were given according to destination, for services by third parties, against the documents presented to the bank, while the contribution of agricultural cooperatives themselves through the work of their members was excluded.

The terms of return on long-term loans depended on the object for which the credit was given and could go up to 25 years from the date of the commencement of its settlement.

e. Bank loans to improve the housing conditions of working people

The Bank of the Albania State began to give long-term loans for the construction and rehabilitation of housing in 1950. Employees were given loans amounting to 7.500 lek, with a maturity of up to 7 years.

In 1954, the loan was given to employees, officers and members of handicrafts cooperatives in the towns, for the construction of houses. The loan covered up to 70 percent of the house value, but could not exceed 7.500 lek. They were given for a maturity term of up to 15 years; to rehabilitate houses; credit was given in amounts up to 90 percent of the value of the repairs, but could not exceed the ceiling of 5.000 lek, with maturity of up to 8 years.



Signing of state loans at the Factory "Enver", March 1952.

Starting from 1 January 1959, the credit could be given to build new homes, to finish the construction of an already started house, as well as for extensions and repairs of houses for workers, employees, pensioners, members of handicraft cooperatives, for individuals expropriated of their private houses in the name of public interest, to be used for institutions, enterprises' and social cooperative organizations' needs, or whose houses were damaged by natural disasters, as well as for people whose houses were demolished according to the regulatory plan of the city. Building loans were given to the amount of 25.000 ALL and with a maturity term of up to 20 years, while to refit houses, loans were given to the amount of 5.000 lek with maturity of up to 15 years. Giving loans was conditional upon bank deposits for an amount of not less than 25 percent of the required loan, which had to remain in the bank as a deposit for at least 6 months. Exempt from this requirement were loans provided to repair houses, when the repair was necessary and urgent.

In this period, long-term loans yielded positive results, especially in the capital and in several other major towns. Subsequent amendments in 1961 and especially in 1963, gave a significant blow to long-term credit, especially for the construction of new housing, which were made conditional to situations in which citizens had agreed to collectively build houses, with two or more floors, but not for less than 6 families. As a result, surplus loans to improve housing conditions in cities increased nearly three times in the years 1960-1975. In later years the surplus grew very slowly until 1980, after which time, this surplus only declined.

Repayment of loans for working people, in agreement with them, took place through monthly salary reductions, which were transferred to the bank by the employers on the day of payroll payments. A mortgage was placed on the house for which the loan was given. Homes refurbished or rebuilt with loans could not be sold by their owners before the loan was repaid to the Bank.

The State Bank of Albania had the right to temporarily or permanently suspend loan provision and to seek even through legal action that the full payment took place before this time, when it was established that the loan was abused and not used for the intended purpose.

Pursuant to the Order of the Council of Ministers No. 4, dated 15.03.1977, as amended by Order No. 4, dated 21.09.1982, new criteria and rules were set for the provision of long-term loans for the improvement of housing conditions of workers in the towns.

f. Bank loans in 1990

In the late '80s, rapid changes, but also the inability to meet the needs for investments from the state budget, especially when the funds were required in foreign currency, imposed changes in loan objects, including long-term loans.

According to Order No. 3, dated 25.05.1990 of the Council of Ministers, the Bank of the Albanian State could provide the enterprises involved with foreign trade and those who produced for export, short and long term loans in cheap foreign currency, for the following purposes:

- a) to make use of the favorable conjuncture of import prices, especially for seasonal goods and to buy and resell goods with profit in cheaper currency;
- b) to stimulate increased production of goods for export or new items, when there was a market for sale in free currency;
- c) to buy some imported goods for wide consumption, the sale of which created additional income in foreign currency;
- d) to buy tools, machinery, spare parts and imported materials that served to enhance and improve the services which affected the growth of revenues in free currency;
- e) to purchase production lines, machinery and equipment that improved the technological process of production in the various branches of the economy, through which foreign funds from import were saved;
- f) to act in other cases that would be considered beneficial by the State Bank of Albania.

Long-term loans were given to these companies for investments in facilities, production lines, machinery and equipment etc., when they were financially viable, when additional income or currency was created or when they had a positive impact

on reducing import needs.

Under Order No. 6, dated 25.05.1990 “On bank loans”, the State Bank of Albania gave companies short-term loans to fulfill their production, distribution and circulation plans for the following purposes:

- a) the partial fulfillment of planned needs for cash flow, after the norms of its own means were defined, calculated on the basis of the quarter with the least needs;
- b) for temporary needs, for needs emerging from the surpassing of planned quantities, for actions taken to improve quality, for material supplies that exceeded the planned amounts, when dictated by factors unrelated to the work of the enterprise, and when there was proof that these materials did not represent goods with a slow turnover, or that might remain on stock for long periods.

These changes, imposed by the circumstances of the time, were short-lived and their application in practice was not without problems which were created by the strictures of the state budget and, in particular by shortages of foreign currency. Consequently, the effects of these changes were negligible.

Specific circumstances in the second half of 1990, especially after the exodus of July 2, imposed the need for private sector lending, even though small scale. In May 1990, the new laws on the State Bank of Albania and the Agricultural Bank were approved; however, these laws only took effect in 1991. Under these circumstances, the State Bank of Albania proposed some amendments to Law no. 7377, dated 08.05.1990, which were approved by the Parliament.

According to the law passed in May 1990, the State Bank of Albania held bank accounts for payments and receipts, for enterprises and government organizations, to which it gave loans. With the proposed changes, the words “enterprise and government organizations” were replaced with the words “customers.”

In this way, Decree No. 7440, dated 01.12.1990 “On some amendments to Law No. 7377, dated 08.05.1990 ‘On the National Bank of Albania’”, provided that short-term loans be given to its clients to carry out their activity, while long-term loans should be given to customers for new investments, purchasing and reconstructing technical and technological manufacturing facilities, services and other activities deemed financially advantageous by the Bank. Lending to the private sector resumed in early 1991.

ii. Bank control over the financing of investments

According to Decree No. 440, dated 08.08.1947, which took effect from 1 September of that year, along with its function as a treasury of the state, the State Bank of Albania was assigned to exercise control over payments by the state and enterprise budgets that went to finance economic under-limit investments and major repairs, as an obligation of the Bank to carry out financial control.

From 1 January 1950, pursuant to Decree No. 744, dated 26.11.1949, the State Bank of Albania was also assigned the financing and control over expenditures for constructions works above the established limits. Bank control over investments for the financing of repairs, in accordance with relevant rules, continued until 1965.

In 1976, the Council of Ministers issued Directive No. 8, dated 15.11.1976 “On the study, design, planning and financing of investments on basic constructions”. With this directive, concrete tasks were set for the investing, designing and implementing entities, as well as for the entities responsible for planning, financing and banking.

The State Bank of Albania had the duty to be very well aware of the rules and powers of the various state bodies and economic entities involved with the planning and approval of works, with the design and estimations of bills of quantities, territorial planning and construction sites, etc. and to require the submission of necessary documents before allowing the financing of expenses incurred.

The Bank had the duty to exercise control at all levels concerning documents relating to investments, from designers, planners, and implementers. It had the right to demand the provision of full documentation, also in relation to construction sites and the necessary funds planned up until the end of the project. Documentary control was accompanied by on-site control, where the project was being built or where machinery and various equipments were being installed, to check on the actual progress of work, the implementation of projects, blueprints, the degree of mechanization of work, the quality of work, the correct application of established standard for material inputs, the handling and administration of building materials, etc. When judged necessary, the Bank made metric measurements of reported works by comparing its data from the control to those shown in the materials presented.

The State Bank of Albania had the duty to follow the ongoing implementation of the state plan and the legal provisions governing investments and capital constructions. It exercised control over investors and construction companies, to make sure that the laws were being implemented in financing investments as well as in the budgeting and actual funding of projects.

The State Bank of Albania did not allow exceeding the full value of the projects, the surpassing the annual funds planned in the relevant budget lines deposited by the investor, the transfer of funds earmarked for a certain project to another project or other projects, etc. Furthermore, it did not allow investments that were not part of the state plan, the use of own funds by economic entities for investments not

planned as required, the carrying out of construction and installation work without a properly designed project and a convincing cost estimate, etc. If there was a violation of the provisions, the Bank was entitled to suspend the further financing for investments and constructions and to require that the relevant authorities take measures against the perpetrators.

Given the importance of investments in the oil sector, the State Bank of Albania was assigned specific tasks in this respect. It was charged to finance drilling, search and exploitation activities in full compliance with the established requirements on the use of wells and their projected length; in particular, it had the final say on whether the project could carry on to achieve the required results.

iii. The wire transfer payment system

The wire transfer payment system included a set of norms, conditions and basic criteria governing payment relations between enterprises, agricultural cooperatives, institutions and political and social organizations, as well as the payment relationships between the latter and the financial bodies. It was organized and directed centrally by the State Bank of Albania.

According to Decree No. 101, dated 03.08.1946, the financial relations between enterprises and state institutions were regulated by the State Bank of Albania. Comprehensive rules regarding the payment system were set by the Decision of the Council of Ministers, No. 480, dated 16.12.1964, and Law No. 6942, dated 25.12.1984, as well as the Decision of the Council of Ministers No. 70, dated 11.03.1985.

All enterprises, institutions, cooperative organizations, etc. were obliged to keep their monetary assets in their respective accounts set by the Bank. As a rule, the funds were used only on authorizations signed by leaders of the institutions and economic entities. Monetary assets in the current accounts could also be used by the Bank at its discretion. Such cases involved the execution of executive titles, requests to comply with government decisions to contribute to raising budget revenue, requests by contracted entities to pay off due bills once acknowledged by the contractor, to pay bank interest, to repay expired bank loans, etc.

The Bank could not at its own discretion use the monetary means that different enterprises and institutions had in their accounts, when the latter had submitted written requests to reserve the funds for salaries, social insurance dues and any form of payment due to employees' for labor contributed to the company.

The Bank effected payments based on:

- *collection requests*
- *wire transfers*
- *scheduled payments*
- *compensation of liabilities*

Payment based on collection requests was the main form of payment via bank transfer. An approved invoice was a Bank form, filled out by the vendor with the necessary data and submitted to the branch of the Bank where he held his accounts. Approval referred to the consent that the buyer gave the Bank (the branch that served him) for the payment of bills presented by the seller. Approval was based on documents presented for payment to the bank and not on the actual sold goods.

Three forms of approval were recognized: *silent approval*, *written approval* and *subsequent approval*.

The silent approval implied that the debtor (buyer) acceded to the Bank payment without prior consent to the Bank as required in the Bank forms. Silent approvals were the most prevalent, because it avoided unnecessary correspondence between the bank and customers.

In addition to the silent approval, there was also the *written approval* which was also seldom used too, where the buying entity had to report in writing to the bank that it accepted the amount according to the documents filed by the vendor.

Payment based on *subsequent approval* was used when the seller and the buyer held accounts in the same bank branch. The approval was called subsequent because although the payment was carried out by the bank at the time of submission of the documents by the seller, the buyer had the right to give his approval to the actions of the bank within the time specified in each document.

The collection request was a basic bank document with which the vendor approached the buyer's bank with the documents justifying its request (invoice, bill of quantities, exit receipts, cargo bills, signed letters of consent, etc.).

Payment orders were a form of payment based on the order that the buyer gave his bank to pay a certain amount from his account to the vendors for the purchase of goods, services, etc.

The payment order was used by enterprises and institutions for the payment of obligations to the state budget to contribute to the creation of investment funds, to add or supplement the lack of cash flow, for the payment of social security contributions, for transferring the amounts that employees wished to put in their saving deposits, etc.

Scheduled payments were a form of payment via bank used between enterprises and institutions that had daily or frequent interactions; it was carried out in two ways, through scheduled wirings over certain time periods and through advance pre-payments.

Payment by wire of scheduled quotas was based on agreements made between the seller and buyer subject to acceptance by the bank. The agreement defined the rights and obligations of the parties and was considered by the bank as an approval to wire through its own initiative the respective amounts from the accounts of the buyers to those of the sellers, in the amounts and on the terms set.

Payment through compensation of liabilities was a form of payment used for the

settlement of obligations arising between enterprises for mutual supplies of goods and materials, delivery of works and services, etc. In this case, rather than using the bank to pay obligations to each other for every financial transaction, enterprises entered the rights and obligations in a single account, which they jointly adjusted regularly.

The State Bank of Albania had the right to exercise control in the area of payments and documents; it also had the right to address economic and financial problems of companies in insolvency situations. It analyzed the causes and recommended measures to be taken to improve the situation, such as the timely preparation of invoices and financial statements, the distribution of goods according to the plan, the creation of appropriate conditions for the maintenance of goods in escrow for third parties, regardless of the reasons, and the liquidation of the countervalue of used goods, the management and distribution of goods from transit points, especially at railway stations, etc.

iv. The organization of international payments

The State Bank of Albania also had the monopoly of international payments in the framework of Albania's commercial relations with foreign countries. For certain countries clearing payments were used, with the ruble or the dollar as the base for calculations, mainly in relation to the countries of the former socialist camp; in the case of other countries, mainly Western, payments were made in free currency.

For clearing payments, the State Bank of Albania concluded banking agreements, pursuant to government agreements. Each of the banks showed in the relevant accounts the transactions for the value of goods imported and exported, the currency used, as well as other obligations relating to external transport for the goods, the expenses for insurance during transportation, and other expenses of a commercial and non-commercial character.

Free currency payments took place through the correspondent banks of the State Bank of Albania in other countries.

The main technical forms of payments used in relations with other countries were:

Immediate payment. As a rule, it applied to all payments using clearing, based on the ruble as the currency for calculations. The exporting enterprise presented its bank with documents that proved the shipment of goods. Upon receiving the documents, the bank immediately effected the payment through the clearing account. The received documents were sent by the Albanian Bank to the buyer's bank. The buyer's bank, too, entered immediately the value of the documents in the clearing account and transmitted them to the buyer, who in turn, within 14 working days, had the right to file claims in the event of noting misconduct on the part of the seller.



Signing of the agreement between the Popular Republic of Albania and the Popular Republic of Czechoslovakia, April 1957, Tiranë.



Signing of the agreement on commercial trade between the Popular Republic of Albania and Italy, Tiranë, 1955.

Payment by documentary credit. This was applied with countries with which payments were made in free currency, as well as with some countries with which trade relations were carried out in clearing payments and where the currency used was the U.S. dollar. Documentary payments were made in accordance with internationally accepted standards.

Payment as per collection requests. This form of payment applied to the liquidation of obligations arising between sellers and buyers, mainly for casual transactions or transactions of relatively small value, for which the opening of documentary credit was not required.

Under this form of payment, the seller sent for collection to the buyer's bank the documents confirming shipment of goods or other documents justifying the transaction. The buyer's bank submitted the application to the buyer and performed payment only with his approval. Thus, the payment through a collection request had no guarantee since the bank did not assume any obligation. At the basis of this form of payment was trust between the parties, the seller and buyer.

Other forms of payment. Other forms of payment included bank wires and cheques and accounted for a negligible part of payments mainly used for non-commercial operations and for the export of vegetables in Western countries.

II. AGRICULTURAL BANK

The Agricultural Bank was established by Decree No. 4613, dated 12.12.1969, as a state institution of credit for agricultural cooperatives, as part of the country's financial system. The Agricultural Bank launched its activity on January 1, 1970. The functions, duties and organization of the Agricultural Bank were set out in the Council of Ministers Decision No. 187, dated 23.12.1969.

The Agricultural Bank was established as a legal person, with its independent account, its own balance sheet and its founding capital (not defined).

The Agricultural Bank implemented the state policy on credit for agricultural cooperatives. It organized the collection of temporarily free funds from cooperatives and, combining these resources with funds made available by the state budget, it planned and delivered short and long-term loans, as per the relevant rules and criteria.

The Agricultural Bank functioned as a cash point for agricultural cooperatives: it cashed in money for goods and services sold and effected payments for goods and services bought. The accounting services were, however, conducted by the State Bank of Albania.

The Agricultural Bank helped and was responsible for drafting and approving the financial plans of the agricultural cooperatives. It examined the financial plans formulated by agricultural cooperatives and helped improve the economic and financial indicators in these plans.

The Agricultural Bank also had the duty to follow the regular organization and proper use of accounts and accounting systems in agricultural cooperatives, the implementation of the accounting plan and the proper application of the accounting system. Implementation of accounting principles, timely and quality preparation, review and analysis of quarterly and annual balance sheets and their annexes, identification of measures to improve the economic and financial indicators, were some of the key issues in this regard.

Through Decree No. 5530, dated 25.02.1977, the scope of activity of the Agricultural Bank, was extended to cover, besides the agricultural cooperatives, the enterprises and institutions in the agricultural system, which were under the subordination of the Ministry of Agriculture and the executive committees at district level. At the same time, the functions and duties of the Agricultural Bank were further refined and improved. They are briefly described below:

- The Agricultural Bank on its own, or in cooperation with the Ministry of Agriculture and the agricultural sections at the district executive committees, was tasked to do analysis and research in order to increase agricultural and livestock production, to conduct studies on the necessity, and the social and

economic utility of investments made in agricultural cooperatives and the enterprises and institutions in the agricultural system.

- The Agricultural Bank exercised control over the use of salary funds in agricultural enterprises.
- The Agricultural Bank reviewed and presented to the State Bank of Albania, the data necessary for the design of the cash plan, income and expenses related to agricultural cooperatives and the institutions and enterprises in the agricultural system.

At the same time, Agricultural Bank was re-organized at town and district level and its oversight was vested in the Ministry of Finance. The Bank's Council was established at the central level, and its members were appointed by the Minister of Finance. The branches of the bank at district level were under direct subordination by the General Directorate based in Tiranë.

The founding capital of the Agricultural Bank was set at 250 million lek. The state guaranteed all the obligations of the Agricultural Bank arising from actions taken pursuant to the Decree on the Agricultural Bank. The Agricultural Bank's annual balance sheet was approved by the Council of Ministers and its revenue was transferred to the state budget.

The Agricultural Bank inherited all the accounts, concerning both deposits and loans, of the agricultural cooperatives which until that time were served by the State Bank of Albania. The creation of the Agricultural Bank gave a new impetus to lending for agricultural cooperatives and later the agricultural enterprises, too.

The Agricultural Bank awarded short-term loans, for up to one year, to agricultural cooperatives, to meet seasonal expenditures, but also as an advance in anticipation of income to be earned. These advances were used to cover payments to cooperative members in advance for days of work.

It also gave agricultural cooperatives long-term loans to invest for construction works approved by the Council of Ministers. Unlike the State Bank of Albania, which could not award long-term loans to agricultural cooperatives, the share of long-term loans to agricultural cooperatives by the Agricultural Bank was substantial.

Table I: Balance of credit for agricultural cooperatives

| Year | Long-term | Short-term |
|------|-----------------|-----------------|
| 1970 | 349 million lek | 170 million lek |
| 1975 | 445 million lek | 362 million lek |
| 1989 | 758 million lek | 831 million lek |

The fast growing rates of short-term loans were indicative of the deteriorating financial situation of the agricultural cooperatives.

The first General Director of the Agricultural Bank was Simo MILO. Subsequently, Andon THIMJO, Skender KUQI and Orfea DHUCI were appointed to the office of the Director General.

III. AGRICULTURE AND DEVELOPMENT BANK

Based on Law No. 7520, dated 16.10.1991, the Agriculture and Development Bank was established as an independent institution, part of the banking system in Albania. The Agriculture and Development Bank inherited all the activity of the Agricultural Bank and was subordinated to the Ministry of Finance.

The Agriculture and Development Bank was charged with accepting savings deposits from the population and natural and legal persons, native or foreign, in lek or foreign currency.

The founding capital of the Agriculture and Development Bank was set at the amount of 450 million.

The governing bodies of the Bank consisted of the Bank's Council, the General Director and the Audit Committee. The Bank's Council was a decision making body responsible for organizing, controlling and accounting for the Bank's activity, while the Director General was appointed by the Council of Ministers. The Audit Commission controlled the implementation of the statute and the decisions adopted by the Bank's Council. Directors of the Agriculture and Development Bank over the years have been Orfea Dhuci and Niko Gjokoreci.

IV. INSTITUTE OF SAVINGS AND INSURANCE

Later known as the Institute of Savings and Insurance, the Department of Savings was established on August 1, 1949, as an addition to and subordinate of the General Directorate of the State Bank of Albania.

The Institute of Savings and Insurance accepted deposits from citizens and in return supplied them with saving cards. In addition to cash deposits, larger inflows of savings came from fractions of salaries transferred directly to the bank accounts of the employees of state owned enterprises and state institutions. Depositors benefited from interest, although in insignificant amounts (interest rate on time deposits was 2 per cent; in some cases 4%).

The Institute of Savings and Insurance deposited the money with the State Bank of Albania (SBA), holding back only insignificant amounts. The SBA paid interest to the Institute of Savings and Insurance, which used the resources to pay accrued interest to depositors, to cover operational expenses (salaries, expendables, electricity, etc.) and to accumulate a modest profit.

The Institute of Savings and Insurance later took on the payment for pensions in the towns and villages, as well as the state security payments, modest as they were, on account of third parties dealing with agricultural cooperatives, for a limited range of risks.



Savings Book – State Savings and Insurance – during the 1950s – 1960s.

The Institute of Savings and Insurance had its network in all the towns where the SBA branches operated. In addition, in the working places, mainly in the large ones, it had its own agents (an employee charged with this task, in addition to his/her usual job), who conducted the necessary actions on behalf of the Institute of Savings and Insurance, including the direct transfer of amounts to be saved from the employees' salaries.

Some of Directors of the Institute of Savings and Insurance were: Ramadan CITAKU, known by the nickname "Baca", Seit BUSHATI, Fadil KEPI, Kostaq POSTOLI, etc.

V. SAVINGS BANK

Based on Law No. 7505, dated 31.07.1991, the Institute of Saving Accounts and Insurance was separated from the BAS to establish the Savings Bank as an independent state institution and constituent part of the banking system. The main functions and tasks of the Savings Bank were:

- a) to carry out operations in relation to savings deposits in domestic and foreign currency by Albanian and foreign citizens;
- b) to award short and long term loans;
- c) to conduct various banking services.

The rules, terms and conditions for savings deposits and loan making were determined solely by the Savings Bank.

To conduct its operations, the Savings Bank had 50 million lek in founding capital, its reserve fund and the fund of fundamental means. The governing bodies of the Bank were the Bank's Council, the Director-General, appointed by the Council of Ministers, and his deputies.

The Savings Bank was subject to control by the State Audit Office. Its balance sheet, following approval by the Bank's Council, was presented to the Council of Ministers.

The Savings Bank entered the banking market, along with the Albanian National Bank (later the National Commercial Bank, NCB) as a standalone entity, separated from the BAS. It inherited the deposits of the Institute of Saving Accounts and Insurance and soon became the largest bank in the country, taking advantage of the belated market entry of the National Commercial Bank and its limited experience in the deposits market. The Savings Bank funds were deposited at the National Commercial Bank, as the tradition was with the Institute of Saving Accounts and Insurance.

The Savings Bank successfully continued its operations until privatization by Raiffeisen Bank, Austria, in 2004.

The first director of the Savings Bank was Edvin LIBOHOVA. He had gained experience from his previous work at the BAS. Subsequent directors of the Savings Bank were Bedri COLLAKU, Artan SANTO and Ardian KAMBERI.

VI. ALBANIAN BANK OF COMMERCE

The Albanian Bank of Commerce was established by Decree No. 7493, dated 01.12.1990, as a legal entity aimed at conducting banking business based in Tiranë, with a regional network of branches. The Albanian Bank of Commerce inherited a part of the activities of the BAS, mainly in the field of foreign trade and currency.

The Albanian Bank of Commerce had the following rights and duties:

- To be a member of teams when Albanian persons or legal entities entered into and concluded agreements of an economic and financial character with foreign physical or legal persons;
- To enter into relationships and banking agreements with other banks for the purpose of opening and maintaining accounts in clearing or free currency; to accept and maintain bank deposits;
- To maintain bank accounts for receipts and payments in national and foreign currency on behalf of its clients; to receive and make payments for commercial and non-commercial actions;
- To conduct foreign exchange swaps for its own account and on behalf of its clients at home and abroad;
- To trade securities and commercial and financial vouchers;
- To assist and control its customers in their activities; to help enforce the law with regard to the use of local and foreign currencies;
- To issue and accept bank guarantees;
- To carry out investments in various sectors of the economy;
- To establish common banks and various enterprise funds;
- To lend in national and foreign currencies in accordance with the established terms and conditions.

The Administrative Council of the Albanian Bank of Commerce was led and represented by the Director General, who acted in accordance with and within the scope determined by the Administrative Council or the Statute.

The Albanian Bank of Commerce had the right to open branches or representative offices abroad. Bank branches in districts were subordinated to the Director General and were held accountable to him.

The Albanian Bank of Commerce had a founding capital of 600 million, a 200 million reserve fund, and the fund of core resources. It was subject to inspection by the State Audit; following approval by the Administrative Council, its balance sheet was presented to the Council of Ministers. Mr. Agron SALIU was appointed Director General of the Albanian Bank of Commerce.

The Albanian Bank of Commerce operated mainly in the area of Tiranë and Durrës, in which a good part of foreign trade enterprises and warehouses were established.



State Bank of Albania, branch in Korçë, 1950.

VII. THE NETWORK OF THE STATE BANK OF ALBANIA OVER THE YEARS

The table below shows the distribution of the branches and agencies of the National Bank of Albania in the towns across the country over 1980-1989:

Table 2: Network of the National Bank of Albania by year

| No | Bank branch | 1980 | | 1985 | | 1989 | |
|-------|-------------------------------------|--------|---------|--------|---------|--------|---------|
| | | Agency | Offices | Agency | Offices | Agency | Offices |
| 1 | Berat | | 3 | | 5 | | 5 |
| 2 | Qyteti Stalin (currently Kuçovë) | | | | | | |
| 3 | Dibër | | 10 | | 13 | | 13 |
| 4 | Bulqizë | | | | | | |
| 5 | Durrës | 1 | 2 | 1 | 2 | 1 | 2 |
| 6 | Kavajë | | | | | | |
| 7 | Elbasan | 1 | 5 | 1 | 9 | 1 | 9 |
| 8 | Fier | 1 | 4 | 2 | 5 | 2 | 5 |
| 9 | Gramsh | | 4 | | 4 | | 4 |
| 10 | Gjirokastër | | 4 | | 7 | | 7 |
| 11 | Kolonjë | | 3 | | 4 | | 4 |
| 12 | Korçë | 2 | 9 | 3 | 8 | 3 | 8 |
| 13 | Krujë | | 2 | | 4 | | 4 |
| 14 | Laç | | | | | | |
| 15 | Kukës | | 5 | | 7 | | 7 |
| 16 | Lezhë | | 3 | | 3 | | 3 |
| 17 | Librazhd | | 3 | 1 | 5 | 1 | 5 |
| 18 | Lushnje | | 1 | | 4 | | 4 |
| 19 | Mat | | 4 | | 5 | | 5 |
| 20 | Mirditë | | 4 | | 4 | | 4 |
| 21 | Përmet | | 3 | | 4 | | 5 |
| 22 | Pogradec | | 3 | | 3 | | 3 |
| 23 | Pukë | | 2 | 1 | 3 | 1 | 3 |
| 24 | Sarandë | 1 | 8 | 1 | 8 | 1 | 8 |
| 25 | Skrapar | | 3 | | 4 | | 4 |
| 26 | Shkodër | | 7 | | 9 | | 11 |
| 27 | Tepelenë | | 4 | | 5 | | 5 |
| 28 | Tiranë | | 4 | | 4 | 1 | 4 |
| 29 | Tropojë | | 3 | | 3 | | 3 |
| 30 | Vlorë | | 8 | | 10 | | 10 |
| Total | 30 | 6 | 111 | 10 | 142 | 11 | 145 |

Prepared by: Professor Llazi Balliu



State Bank of Albania, branch in Kukës, from 1959 – 1962.

Period 1991 – 2012

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I. BANKS ON THE EVE OF THE NEW DEMOCRATIC SYSTEM

In late 1991, the structure of the banking system in Albania was typical of a centralized economy. The system comprised the following state owned institutions:

- a) *State Bank of Albania* was created by Law No. 7377, dated 8.5.1990, “On the State Bank of Albania,” to carry out central bank functions as well as the functions of a commercial bank;
- b) *Savings Bank* was created by Law No. 7505, “On the Savings Bank,” to collect citizens’ savings in local and foreign currency, provide short and long term loans and various other services;
- c) *Agriculture and Development Bank* was incorporated in October 1991 through the takeover of the Agrarian Bank, to provide direct loans to agricultural farms and cooperatives;
- d) *Commercial Bank of Albania* was established in January 1991, by Decree No. 7493, dated 1.12.1990 “On the Commercial Bank of Albania,” to manage all bilateral clearing agreements with Eastern European countries and all other foreign trade transactions.

II. ESTABLISHMENT OF THE TWO-TIER SYSTEM

The two-tier banking system in Albania was established in April 1992, following the adoption by the People's Assembly of the Law No. 7559, dated 22.04.1992, "On the Bank of Albania," which repealed Law no. 7377, dated 8.5.1990, "On the State Bank of Albania," and Law No. 7560, dated 28.04.1992 "On the Banking System in Albania." The State Bank of Albania became the Bank of Albania and was given all the functions that a central bank has by western standards. The commercial activity was assigned to the Commercial Bank of Albania, which was established in June 1992. These important decisions paved the way for the departure from the socialist mono-banking system and the complete transformation of the banking system in Albania along the lines of western models.

On 1 January 1993, the National Bank of Albania and the Commercial Bank of Albania merged to create the National Commercial Bank of Albania. In October 1993, the Bank for Development and Agriculture became the Commercial Agrarian Bank, all the assets and deposits being transferred to the new bank. Managers of the Commercial Agrarian Bank over the years have been Lulzim Sharku dhe Adrian Dabulla.

All commercial banks were officially allowed to exercise their functions as commercial banks, accepting deposits from and providing loans to both individuals and companies.

III. ESTABLISHMENT OF BANKS WITH THE PARTICIPATION OF FOREIGN CAPITAL

The new banking legislation, for the first time ever, provided the possibility for the incorporation of private banks. Specifically, the pieces of legislation passed in April 1992 marked the beginning of new developments in the banking system. In December 1992, the Bank of Albania licensed the Italian-Albanian Bank, a joint venture between the National Commercial Bank of Albania and *Banca di Roma*. The new bank started to operate in July 1993. In particular, at the request of the Albanian government, the Italian-Albanian Bank would act on account of Albania, and on behalf of the Bank of Albania, i.e., it would carry out the operations related to foreign aid management and international finance. In particular, it injected cash into the process of the privatization of the economy. Its founding capital was 10 million U.S. dollars, comprised of 100 shares worth \$ 100,000 each, divided 50:50 between the two partners.

Besides the Italian-Albanian Bank, in December 1992, a second bank of the joint venture type was licensed between the National Commercial Bank (40 per cent of the capital) and the Islamic Development Bank (15 percent of the capital). This bank was called the Islamic Arab-Albanian Bank. The rest of the capital was owned by individuals and entities from the Arab countries.

Similarly, in December 1993, another Albanian-Kosovar private bank, called Dardania, was licensed.



Italian-Albanian Bank, branch in Durrës.

In late 1993, for the first time, the Albanian banking system was diversified in terms of ownership title. In addition the number of banks had increased to levels never experienced before. Table 3 presents the two-tier banking system in late 1993.

Table 3: Banking system at the end of 1993

| No | Banks | Ownership | Level |
|----|----------------------------|-----------------|-------------------------|
| 1 | Bank of Albania | State | First (Central bank) |
| 2 | National Commercial Bank | State | Second (universal bank) |
| 3 | Savings bank | State | Second (universal bank) |
| 4 | Commercial Agrarian Bank | State | Second (universal bank) |
| 5 | Italian-Albanian Bank | Joint-venture | Second (universal bank) |
| 6 | Islamic Arab-Albanian Bank | Joint-venture | Second (universal bank) |
| 7 | Dardania Bank | Private foreign | Second (universal bank) |

IV. RESTRUCTURING AND PRIVATIZATION OF STATE OWNED BANKS

Despite the significant changes introduced by the new legal package, one problem remained unsolved. State banks in their books featured loans to the state owned enterprises, some of which no longer in existence. There were discrepancies between the figures in the books and those in the real situation. In order to balance bank liabilities, new resources had to be added to the active assets. Consequently, the problem of clearing the books of state-owned banks was an issue calling for immediate attention. This process was considered in the context of the *restructuring* and *recapitalization* of state banks. To this end, in late 1992, the government agreed to forgive debts incurred by state-owned enterprises before July 1992. Therefore, the Ministry of Finance issued bonds to replace the 4.3 billion leks in bad loans featuring in the books of the National Commercial Bank.

The economic reforms and the massive privatization process of the economy in the period 1994 -1996 necessitated the privatization of the banking sector, too. In 1996, the state-owned commercial banks dominated the banking market; over 90 percent of all banking activities were conducted by them. On the other hand, the problems with the state-owned enterprises and the newly created problems in the first years of the free market economy, showed that state-owned banks could not successfully carry out their intermediary role in the conditions of residual and obsolete management practices, the risks involved in meeting capital ratios, the old-time methods and the total lack of technology and infrastructure to support bank operations.

The most important document underwriting the privatization of state banks was the Decision of the Council of Ministers, No. 655, dated September 23, 1996, "On the approval of the privatization strategy for state-owned banks." This document defined the government's short and medium-term objectives in bank privatization; its role the role of the Bank of Albania and the banks themselves as they entered their privatization process; bank selling methods; the stages to be followed in the privatization processes; factors influencing the formula and order of privatization; as well as the role of leaders and consultants in the process. The privatization strategy for state-owned banks required that this process be preceded by adjustments in the legal framework as the first stage. In the second stage, the banks would be prepared for privatization. Thus, the first bank to be privatized was the Commercial Agrarian Bank, followed by National Commercial Bank and the Savings Bank. The privatization of all of these banks would be over by the year 2000. The process would be led by the Ministry of Finance and the Ministry of Privatization, in cooperation with the banks to be privatized, the foreign consultants and the Bank of Albania.

Preparation of banks for privatization began with the design of a package of measures for every bank, addressing the specific situation of each bank separately.

These measures had to do with the existing loans, the capital levels, the internal regulatory framework, bank licensing according to Law No. 8075, 22.02. 1996, “On the banking system in the Republic of Albania”, the observance of the regulations of the Bank of Albania, the reorganization of bank’s internal audits and improvement of their accounting procedures.

Part of these measures was the decision of the Council of Ministers, No. 821, dated December 9, 1996, “On the reorganization of the operations of the Savings Bank, the National Commercial Bank and the Commercial Agrarian Bank.” This document marked the first concrete step towards the restructuring of the branches of these banks. It made possible the transfer of a significant number of branches, agencies and offices of the National Commercial Bank and the Commercial Agrarian Bank to the Savings Bank. The latter’s restructuring would happen at a second stage. The aim was to make these two banks in the first line of privatization together with their banking networks attractive to investors. The Bank of Albania would monitor and supervise the effects created on the financial situation of each bank throughout the transfer of their banking transactions.

As the government was designing the measures to prepare the state-owned banks for privatization, the performance of these banks was only deteriorating. Bad loans became the norm. The development of the informal market of the pyramid schemes and the destabilization of the country by the events of 1997 further worsened the financial situation of the state-owned banks. This situation forced the authorities to ban lending by state banks after 1997, in efforts to stall the deterioration of their financial situation as they were preparing for privatization. The situation had deteriorated so badly, that in December 1997, in the framework of the bank’s privatization program, the government decided to close the Commercial Agrarian Bank. This decision was implemented in the first quarter of 1998, with a part of activity transferred to the Savings Bank and the rest to the Loan Handling Agency. Book cleaning for the National Commercial Bank and the Savings Bank, through the transfer of loans to the Loan Handling Agency, was carried out in accordance with Law No. 8584, and dated March 15, 2000, “On some additions and amendments to Law No. 8339, dated 30.04.1998, “On the establishment of the Loan Handling Agency.”

The privatization process continued with two other state owned banks - National Commercial Bank and the Savings Bank. According to the privatization strategy, the Ministry of Finance selected and appointed a foreign manager (IDI - International Development Ireland Limited, Dublin, Ireland) for the National Commercial Bank in 1998. With regard to the Savings Bank, the government signed with the bank’s governing board a management contract to effect the preparation of the bank for privatization, and hired a foreign corporation to implement the contract. Foreign managers were given veto rights with regard to decisions involving bank lending and staff policies.

Following an open invitation for expressions of interest, a tender was held for

the 100% sale of the shares of the National Commercial Bank, which resulted in the privatization of this bank in 1999. The Law no. 8634, dated 6 July 2000, was passed to adopt the agreement on the sale of the joint stock of the “National Commercial Bank” between the Republic of Albania and International Investors Consortium consisting of Kentbank (Turkey), International Finance Corporation (IFC) and European Bank for Reconstruction and Development (EBRD). The agreement entered into force on 17 October 2000 with the total transfer of ownership rights to the new shareholders

The National Commercial Bank was sold without capital, the assets and liabilities equalized. The aim of the Albanian government in selling an uncapitalized bank was to have buyers bring in their own capital according to the requirements of the Bank of Albania on capital adequacy rates. In fact, the buyers deposited \$ 10 million prior to the takeover. In this way, the bank was saved from liquidation, which is what happened with the Commercial Agrarian Bank, and at the same time it was capitalized - saving the state budget a substantial amount of resources.

The successful privatization of the National Commercial Bank was an experience that could be taken further in the case of the Savings Bank, the largest bank in the country.

The privatization of the Savings Bank

Under the special law approved by the Albanian Parliament in December 1999, the Savings Bank would be totally privatized. The strategy envisaged the combination of participation by a strategic investor (not less than 35% of shares), the international financial institutions (not more than 49% of shares), and local private undertakings (not more than 24% of the shares).

In addition, a number of other adjustments were undertaken in efforts to prepare this bank for privatization. As part of these adjustments, the parliament adopted Law No. 8726, dated 26.12.2000, “Issuing treasury bonds to cover government obligations to the Savings Bank and recapitalize the bank.” In addition, on 28.12.2000 Decision No. 737 of the Council of Ministers was adopted, “On the determination of the terms and conditions of treasury bonds issued to cover government obligations to the Savings Bank and to provide for the bank’s recapitalization.” Thanks to this Decision, the government obligations were paid off and the bank received recapitalization resources in government bonds in the amount of 17.2 billion. This amount fulfilled the Central Bank’s criteria for capital adequacy. These measures allowed the Savings Bank to improve its capital position and to increase its market value.

By end of June 2001, the Finance Ministry announced an international tender for the privatization of the Bank. The first phase of the tender would be completed by September 2001. However, the unfavorable situation of the financial markets in Europe (bank mergers and the banks’ changing hands), the heavy involvement of many prestigious banks in the SEE region with preparations for the euro transition, the destabilized situation in the region (Macedonia and Kosovo events), the procrastinated parliamentary elections in the country and, finally, the shocking

events of September 11 in the U.S., all of these factors refrained investors from expressing their interest in the privatization of the Bank.

Under these conditions, the Ministry of Finance and the Privatization Committee postponed the privatization timeline. The new deadline was extended to March-May 2002. In addition, given the size of the Bank and expected managerial difficulties in the first post-privatization period, a number of steps were designed to restructure and improve the bank's standing until the privatization time. These steps involved:

- Upgrading effectiveness of branches and agencies;
- Reducing employee numbers;
- Extending and expanding information systems;
- Transferring the payment of a portion of retirement pensions to Albapost Ltd;
- Transferring the bad loans portfolio to the Loan Handling Agency;
- Re-evaluating Bank assets by foreign expertise;
- Registering the fixed assets on account of the Bank;
- Auditing the Bank by a foreign audit company.

The tendering process for the Bank privatization went smoothly according to plan in the first 6 months of 2002. The Privatization Group undertook several trips to some of the most prestigious banks in Italy, Austria, etc., to introduce the Bank and encourage the investors to buy it.

Following a pre-qualification process, the two major Italian banks - Intesa and San Paolo di Torino – were qualified to continue the tendering procedure. However, this phase closed with a due diligence analysis; in the last minutes before the opening of the tender, both banks withdrew and the process failed again.

The privatization process was launched again in 2003. This time, the Austrian RZB and the Hungarian OTP were the rivals. By Decision No. 1, dated 01.07.2004 of the Council of Ministers - On approval of the contract between the Ministry of



The ceremony of the purchase of the Saving Bank by Raiffeisen Zentralbank Österreich.

Finance and Raiffeisen Zentralbank, Austria, on the sale of 100% of the shares of the Savings Bank- the Savings Bank was sold for 126 million dollars. The sale was formalized in April 2004, with 100 % of the ownership over the Savings Bank’s capital transferred to Raiffeisen Zentralbank Österreich Aktiengesellschaft. In August of the same year, the Bank of Albania approved the request of Raiffeisen Zentralbank Österreich AG for the transfer of 100% of the capital stock of the Savings Bank to the Raiffeisen International Bank-Holding AG. Both entities are part of the Raiffeisen Group Zentralbank Österreich AG (RZB-Group). This transaction was designed to maintain the overall ownership structure of the RZB Group, with no changes in the control of the Savings Bank, which remains under the RZB Group.

Although the sale of the Savings Bank reportedly completed the privatization of state-owned banks, in fact, the state continued to participate in the banking sector. The Albanian government, through the Ministry of Finance, continued to hold shares in two joint stock banks: the Italian-Albanian Bank and Islamic Arab-Albanian Bank. The sale of these shares would end the participation of the Albanian government in the banking sector. In May 2006, it was decided to sell 80% of the capital of the Italian-Albanian Bank, owned 40% by the Ministry of Finance of the Republic of Albania and 40% by Capitalia S.A., Italy, to the new shareholder SanPaolo IMI SpA, Italy. The second and final step was taken in 2009, when the Ministry of Finance sold to the Islamic Development Bank 40% of the shares to the United Bank of Albania (former Islamic Arab-Albanian Bank). These two actions ended the history of state involvement in the banking sector. Currently, the banking sector is entirely owned by private shareholders. Table 4 presents the banking sector with respect to nationality of shareholders as per December 31, 2011.

Table 4: Banking sector according to stakeholders nationality

| Number of banks | Origin | Specific weight according to | | |
|-----------------|----------------|------------------------------|----------|--------|
| | | Assets | Deposits | Loans |
| 4 | Greece | 21.0% | 18.9% | 26.7% |
| 2 | Italy | 13.1% | 12.4% | 10.9% |
| 2 | Albania | 9.4% | 9.8% | 12.5% |
| 2 | Arab countries | 0.7% | 0.5% | 0.4% |
| 1 | Austria | 28.2% | 30.0% | 23.9% |
| 1 | Turkey | 17.6% | 18.3% | 14.9% |
| 1 | France | 5.0% | 5.1% | 5.4% |
| 1 | Germany | 3.5% | 3.4% | 4.2% |
| 1 | Bulgaria | 0.8% | 0.8% | 0.7% |
| 1 | Malaysia | 0.8% | 0.7% | 0.4% |
| 16 | | 100.0% | 100.0% | 100.0% |

V. LEGISLATION CHANGES AND THE INCREASE OF BANKS NUMBERS

Legislation changes and legal amendments followed closely the country's economic development and the strengthening of its institutions.

The first change in the banking legislation took place in 1992, with the Parliament passing the laws, "On the Bank of Albania" and "On the Banking System in Albania." The Law No. 7559, dated 22.4.1992, "On the Bank of Albania" sanctioned that the primary objective of the Bank of Albania is the maintenance of the value of the national currency through the implementation of adequate monetary policies, the issuance of local currency and the setting of currency exchange rates. The Law provided safeguards for the relative independence of the Bank of Albania, stating that no single national body may guide the Bank of Albania, make decisions on its behalf, or cancel any of its decisions. Furthermore, independence was corroborated by the manner of the appointment of the Governor of the Bank of Albania and the members of the supervisory board.

The above law granted the Bank of Albania the right and the authority to produce the by-laws and regulations giving effect to the law. Among them, mention can be made of the package of by-laws for licensing commercial banks in May 1994. These by-laws covered the activity, financial standing, personality and credibility of the applicant, as well as the reputation, professional capacity and credibility of owners and managers. In June 1994, the Regulation "On the adequacy of banks' own capital" stipulated that the Albanian state-owned banks, the joint stock banks owned by the Albanian state and foreign shareholders, and branches of foreign banks from OECD countries, were required to maintain capital adequacy ratios not less than 8 percent, while for the other banks this rate could not be less than 15 percent.

The second change was implemented in February 1996 with the passage of two additional laws: Law No. 8075, "On the banking system in the Republic of Albania," and Law No. 8076, "On the Bank of Albania."

The Law "On the Bank of Albania" defined clearly and unambiguously the institutional independence of the central bank. The main objective of the Bank of Albania was to maintain price stability. The Law also outlined exchange rate and reserves management policy, the manner of organization and administration of the Bank of Albania and the upper limits of central bank lending for the government. The Law, "On the banking system in the Republic of Albania" set the rules for the licensing of commercial banks and other financial institutions. These rules determined the manner of bank organization and running and detailed the decision-making pyramid from the general assembly of shareholders, to board functions and the division of responsibilities related to bank administration and management. It went on to determine lawful bank operations as per the size of capital, participation



Actual view of the Branch of BKT in Durrës, first inaugurated on 30 November 1925.

of banks in security markets, receivership and liquidation of banks in accordance with bankruptcy rules and procedures, the rules governing the monitoring of and reporting by companies and non-banking institutions involved in banking operations, provisions on training requirements and qualifications for administrators, rules on confidentiality, conflict of interest, prevention of laundering money and proceeds from criminal activities such as drug trafficking, arms trade, etc.

Following the adoption of these laws, it became evident that a review of the entire regulatory and supervisory framework of the banking system was necessary. Among the most important changes that took place, mention can be made of the requirement that all banks should be incorporated as joint stock companies, the capital should be divided into nominal value shares, the minimum capital should be the same for all banks regardless of the shareholding nature, licensing should occur in two phases (the preliminary phase followed by license granting), etc. There were also other requirements with regard to new banks' drafting business plans, administrators' qualifications, rights and responsibilities for shareholders with more than 10 percent of the shares, etc.

The changes, adjustments, improvements and additions to the bank licensing policies were dictated by the growing demand for new incorporations in the banking sector in the Republic of Albania. In 1996 alone, seven complete applications were submitted and other entities were in the process of completing the documentation. A final license was granted to the National Bank of Greece, the largest bank in Greece, and the Bank of Piraeus, the first foreign private bank in Albania, while a preliminary license was granted to the Malaysian entity under the name of the International Commercial Bank and another one to the branch of Alpha Credit Bank in Tiranë. In the pipeline were the applications of the Albanian-American Enterprise Fund and the Commercial Bank of Greece. At the end of 1996, the number of banks had risen to 8, namely:

| Banks with state-owned shares: | Joint stock banks | Privately owned banks | Banks with foreign private capital: | Banks with foreign state owned capital: |
|---|---|-----------------------|-------------------------------------|--|
| 1. The National Commercial Bank 2. The Commercial Agrarian Bank 3. The Savings Bank | 1. The Italian-Albanian Bank 2. The Islamic Arab Albanian Bank | 1. Banka Dardania | 1. Banka Tirana | 1. Branch of the National Bank of Greece |

The third change of the legal framework for banks occurred in 1997. Developments in 1996, in particular those in 1997, revealed that the independence of the Bank of Albania was fragile. Therefore, the Law No. 8076, dated 22.02.1996, "On the Bank of Albania," with amendments, was repealed. In response to the need for a more realistic and formalized independence of the central bank, a new law, No.

8269, dated 23.12.1997, “On the Bank of Albania,” was passed. This law, as amended, continues to be in force.

The third change in the law on the banks took place in 1998. The Law No. 8365, dated 2.7.1998, “On the Banks in the Republic of Albania,” repealed the Law No. 8075, dated 22.02.1996 “On the banking system in the Republic of Albania.” The new law reflected the changes that had happened in the banking system and filled the gaps evidenced during the implementation of the previous law, in order to ensure adequate capitalization of banks and appropriate rules for entry and exit from the system. Minimum regulatory capital for banks increased from 200 million leks in 1996, to 350 million leks in 1997 and further up to 700 million leks in April 1998 (the existing banks paid the minimum capital of 500 million leks within the month of September 1999 and the rest of 200 million leks in March 2001). Licensing requirements were strengthened asking for additional information on the business plans and the qualifications of bank Managers. All the commercial banks licensed to conduct banking activities in Albania were screened vis-à-vis the newly established criteria.

These changes contributed to the resuscitation of the banking system and strengthened bank’s importance in the economic and social life of the country. In 1998 two additional banks were licensed, raising to 10 the number of banks in Albania (see Table 5).

Table 5: Banking sector in 1998

| Banks | Number of branches | Paid capital to liabilities in % | Total of deposits to liabilities in % | Total of credits to assets in % | % of bad credits to total of credits | L/V (treasury bonds) in % to the banking sector |
|---------------------------------------|--------------------|----------------------------------|---------------------------------------|---------------------------------|--------------------------------------|---|
| State Banks | | | | | | |
| National Commercial Bank | 10 | 12.3 | 74.3 | 5.2 | 84.1 | 0.7 |
| Savings Bank | 33 | 0.3 | 88.4 | 6.3 | 50.7 | 97.6 |
| Private and joint stock banks | | | | | | |
| Italian-Albanian Bank | | 19.9 | 63.4 | 41.4 | 8.4 | 0.5 |
| Islamic Arab-Albanian Bank | | 90.1 | 10.9 | 0.0 | 0.0 | 0.0 |
| Dardania Bank | | 4.3 | 12.6 | 2.4 | 16.5 | 0.0 |
| Tirana Bank | 2 | 15.7 | 63.3 | 18.0 | 20.3 | 0.5 |
| Branch of the National Bank of Greece | | 7.0 | 81.1 | 0.0 | 0.0 | 0.3 |
| International Commercial Bank | | 58.8 | 48.8 | 31.0 | 0.0 | 0.1 |
| Branch of Alpha Credit Bank | | 14.7 | 44.5 | 12.5 | 0.0 | 0.2 |
| American Bank of Albania | | 32.8 | 44.5 | 0.0 | 0.0 | 0.0 |

The banks in Albania, in general, operate according to universally accepted principles, with the exception of the Islamic Arab-Albanian Bank, which runs according to the Islamic banking principles, i.e., it refuses interest-bearing, time deposits and does not make loans. However, the Savings Bank still dominates the banking system in Albania. This is due mainly to the acceptance of deposits and treasure bond investments, representing respectively 78.8 per cent and 97.6 per cent of total deposits and investments in the second level banks.

Licensing of new banks continued in 1999, too. The number of banks increased to 13, with three new private banks established: the FEFAD Bank, the First Investment Bank – Tirana Branch and the Inter Commercial Bank. In October 2000, the privatization of the National Commercial Bank Ltd., increased the number of private banks. In 2002, Credit Bank Albania received the license to operate.

In 2003, the banking system underwent significant developments. These developments included additions to the existing banks, shareholder changes and name changes, as described below:

- The Supervisory Council of the Bank of Albania made the decision to license the Bank “Credins” to operate in the banking system in the Republic of Albania.
- The Bank of Albania granted the request of the American Bank of Albania to establish an affiliate in Athens, Greece.
- The Popular Bank of Puglia was granted license to open a representation office in Tiranë.
- The Bank of Albania approved the change in the structure of Tirana Bank shareholders.
- Name changes were approved: for the Islamic Arab-Albanian Bank into the United Bank of Albania, and the FEFAD Bank into ProCredit Bank.

The year 2004 saw more significant changes. In February, the Popular Bank, Ltd, the second in the country running with 100% local capital, entered the banking market. In April, to crown its privatization, the Savings Bank passed under 100% ownership of the Raiffeisen Zentralbank Österreich Aktiengesellschaft, and the Commercial Bank of Greece in Albania changed its name into Emporiki Bank.

At the end of 2004, the number of banks in Albania was 16, of which 2 with entirely local capital and 14 with a prevalence of foreign capital.

In June 2005, 100% of the capital stock of the bank Dardania was sold to an individual and a bank of Italian origin. At the same time, the name of the bank was changed to Italian Development Bank.

From 1998 to 2005, the banking sector changed its architecture as regards constituency and the role played by private banks in the country’s economy. The changes that had happened dictated the need to review the banking legislation.

The fourth change in the banking sector took place in 2006. The Albanian Parliament approved the Law No. 9662, dated 18.12.2006 “On Banks in the Republic of Albania” which repealed the Law No. 8365, dated 2.07.1998 “On Banks in the

Republic of Albania.” The new law regulates the banking activity, including of the branches of foreign banks in Albania. The changes in the law were the result of many years of experience in the banking sector and of efforts to harmonize Albanian legislation with European best practices and models. The law contains detailed requirements for bank licensing and establishment of foreign banks’ branches in Albania. It establishes transparency standards and accountability criteria to the public as regards bank management practices.

Most importantly, the law regulates bank receivership and liquidation, defines the necessary qualifications for certified audit experts and capital thresholds; it consolidates supervision requirements and other restrictions and rules to be followed by management with the ultimate aim of ensuring financial stability in the banking sector.

The year 2006 was characterized by some other rapid changes in the banking sector, which contributed to the strengthening of shareholders’ position. Specifically these changes are described below.

- In May, 80% of the capital shares of the Italian-Albanian Bank –owned by the Ministry of Finance of the Republic of Albania and Capitalia S.A., Italy - were sold to the new shareholder SanPaolo IMI S.p.A., Italy.
- A decision was made to transfer 60 percent (plus 2 shares) of the shares of the National Commercial Bank from the former owner Kent Bank/Bayindir Bank to the new institutional, Turkish shareholder Calik-Seker Konsorsiyum Yatirim Anonim.
- In August, 11.25% of the capital shares of ProCredit Bank were transferred from EBRD to ProCredit Holding AG (an existing shareholder).
- In October, 71.97 percent of the capital shares were transferred from Emporiki Bank S.A., Greece, to the new shareholder Credit Agricole S.A., France. Through the transfer, Credit Agricole S.A., indirectly came to own the capital shares of the Emporiki Bank of Albania Ltd.
- Two requests were granted to establish branches outside the Albanian territory.
- Union Bank received license to operate, becoming the third bank with entirely Albanian capital. With Union Bank, the number of banks in Albania becomes 17.

In 2007, the banking sector underwent significant structural changes. The number of private banks with entirely Albanian capital went down from three to two (Union Bank and Credins Bank), due to growing interest by powerful European banking groups to establish their presence in the Albanian market, as a result of which:

- In June, 80% of the capital shares of the American Bank of Albania, owned by the Albanian-American Enterprise Fund, were transferred to the new shareholder Intesa Sanpaolo S.p.A., Italy.
- In July, the final license to operate in the banking sector was given to the First Investment Bank Albania Ltd. The Bank’s incorporation was the result of its

transformation from a branch into a subsidiary of First Investment Bank in Bulgaria.

- 75,006% of the capital shares of the Popular Bank, owned by 32 Albanian shareholders, were sold to Societe Generale, France.
- In August, 76.129% of the capital shares of the Italian-Albanian Bank were transferred from the ownership of SanPaolo IMI S.p.A., Italy, to the ownership of Intesa Sanpaolo S.p.A, Italy. This transfer was due to the takeover of SanPaolo IMI S.p.A., Italy, by Intesa S.p.A., Italy. The result was the creation of Intesa Sanpaolo S.p.A., Italy.
- In December, approval was given for the Italian-Albanian Bank to be taken over by the American Bank of Albania.
- ProCredit Holding AG, Germany, increased its participation in the capital shares of ProCredit Bank, through the purchase of shares owned by the IFC and FEFAD Albania. Following this transaction, ProCredit Holding AG, Germany, owns 80 percent of the capital shares of the ProCredit Bank.

The consolidation trend of the banking sector continued in 2008, with the following developments:

- The acquisition of 12.5 per cent of the capital shares of Union Bank Ltd by the European Bank for Reconstruction and Development (EBRD);
- The transfer of ownership of 76.83% of voting shares from the Italian Development Bank to Veneto Banca Holding S.c.p.A., Italy;
- The license of the Italian-Albanian Bank was revoked due to its takeover by the American Bank of Albania, and so was that of the Branch of First Investment Bank due to its re-incorporation as the First Investment Bank;
- The American Bank of Albania changed its name to Intesa Sanpaolo Bank Albania;
- Credins Bank changed its shareholders structure, whereby the shareholder BFSE Holding BV, Netherlands, owns 22.17% of the capital shares through the purchase of existing shares as well as through the signing of new shares.

The last developments occurred in 2009:

- Calik Holding A.S., Turkey, (indirect shareholder) increased its qualifying holding on the capital shares of the National Commercial Bank from 25.2% to 45.6%; and
- The Islamic Bank for Development increased its qualifying holding over the capital shares of the United Bank of Albania Ltd., from 15% to 55% through the purchase of 40 percent of the shares owned by the Ministry of Finance.

The frequent changes in legislation, designed to strengthen the legal and regulatory framework of the banking system, are associated with increased demands for bank incorporation. The increased demand for licensing is indicative of the increased confidence in the Albanian economy, adequate regulation of the

investment environment, the central bank's authority over market regulation and the lessons learned from the undesirable developments caused by the pyramid schemes in 1994-1997.

Table 6 summarizes the developments that have taken place in the banking sector from 1992 to 30 June 2012.

Table 6: Banking Sector following 1991

| Nr | Bank name | Licensing date | Start of activity | Subsequent developments |
|----|--|--|-------------------|---|
| 1 | Savings Bank | Established by Law No. 7505, dated 31.07.1991 "On the Savings Bank" | September 1991 | <ul style="list-style-type: none"> • Re-licensed¹ on 11 December 1998 • Privatized by Raiffeisen Zentralbank Osterreich Aktiengesellschaft, April 2004 |
| 2 | National Commercial Bank | Decision of the Supervisory Board of the Albanian Bank, 28 December 1992. Licensed on 23 November 1995 | January 1993 | <ul style="list-style-type: none"> • Re-licensed on 11 December 1998 • Privatized in October 2000 |
| 3 | Islamic Arab-Albanian Bank | 5 December 1992 | May 1993 | <ul style="list-style-type: none"> • Re-licensed on 11 December 1998 • Changes its name to "United Bank of Albania", October 2003 |
| 4 | Italian-Albanian Bank | Law No. 7649, dated 16.12.1992 "On the creation of the joint stock Italian-Albanian Bank" | June 1993 | <ul style="list-style-type: none"> • Licensed on 18 June 1998 • Purchased by "San Paolo IMI", December 2005 • Merged in "Intesa Sanpaolo Bank," 2008 |
| 5 | Dardania Bank | December 1993 | 1994 | <ul style="list-style-type: none"> • Re-licensed on 11 December 1998 • Purchased by "Italian Development Bank", 2005 • Changed its name into "Veneto Bank," 2009 |
| 6 | International Commercial Bank | February 1997 | January 1996 | |
| 7 | National Bank of Greece, Albanian Branch | 14 Mars 1996 | November 1996 | <ul style="list-style-type: none"> • Transformed into an affiliate named "NBC Albania" in February 2012 |
| 8 | Tirana Bank | 30 April 1996 | June 1996 | |
| 9 | Alpha Credit Bank-Albania Branch | 27 December 1996 | 1998 | <ul style="list-style-type: none"> • Changed into an affiliate, named "Albania Alpha Bank" in February 2012 |
| 10 | American Bank of Albania | 10 August 1998 | September 1998 | <ul style="list-style-type: none"> • Purchased by "Intesa Sanpaolo Bank", 2008 |
| 11 | FEFAD Bank | 3 March 1999 | June 1999 | <ul style="list-style-type: none"> • Changed its name into "ProCredit Bank", 2003 |
| 12 | Inter Commercial Bank | 19 October 1999 | 1999 | <ul style="list-style-type: none"> • Changed its name to "Commercial Bank of Greece - Albania", June 2001 • Changed its name to "Emporiki Bank – Albania", 2004 |
| 13 | First Investment Bank Albania Branch | 13 April 1999 | 1999 | <ul style="list-style-type: none"> • Transformed into an affiliate named "First Investment Bank, Albania", July 2007 |
| 14 | Credins Bank | March 2003 | March 2003 | |
| 15 | Credit Bank | July 2003 | March 2003 | |
| 16 | Popular Bank | February 2004 | March 2004 | <ul style="list-style-type: none"> • Purchased by "Société Générale Group", July 2007 |
| 17 | Banka Union | January 2006 | January 2006 | |

¹ The re-licensing was made under the requirements of Law No. 8365, dated 02.07.1998 "On Bank in the Republic of Albania"

VI. COPING WITH THE FINANCIAL THREATS

The growth, changes and development of the banking sector are the direct result of having to cope with the difficulties of a growing economy in transition. The absence of a comprehensive legal system, inexperience with the market economy, the low level of economic development and the different numerous reforms undertaken gave rise to a situation in which the will and desire to advance clashed with the negative phenomena arising from lawlessness, weak law enforcement and infantile institutions.

The banking sector had to face three financial threats on its path to consolidation.

The first threat involved the emergence of the informal market over 1994 - 1996, leading to the creation of the pyramid schemes. A weak state-owned banking sector, the lack of credit markets, the absence of legislation and unclear property rights, on the one hand, and the need for resources to create private businesses, on the other hand, led entrepreneurs to private borrowing, initially from friends and family, and subsequently from the general public. In the absence of opportunities to reinvest for bigger profits, this financing scheme seemed appropriate for expansion and growth of small business entities as long as it was kept within strict margins and to the extent that it did not endanger own assets of the borrower. However, these rules were ignored by the market forces, which drove interest rates beyond any reasonable speculative practice to the realm of the pyramid schemes.

United in one front, the companies and the foundations representing the pyramid schemes put the banking sector out of business in deposit collection. In November 1996, interest rates reached their peak. “Xhaferrri” provided 47 percent monthly, “Populli” 39 percent per month, “Sude” 41 percent per month, VEFA 8 per cent per month and other pyramid schemes 10 percent per month. Meanwhile, the Bank of Albania had established 16 percent as the lower limit of interest rates on 12 month deposits. Bank’s reluctance to lend credit was punished by the market, which was materialized in individuals’ withdrawing their deposits from the banks. However, on the other hand, the lack of investment opportunities in the economy resulted in a significant portion of deposits being returned to the banks by the pyramid firms and foundations. Although the banks were put out of business by the high interest rates offered by the pyramidal schemes, the Bank of Albania continued to set minimum interest rates on deposits, as part of its monetary policy, guided by the ultimate aim of maintaining positive interest rates in real terms. But the public was tempted by the high interest rates offered by the informal non-bank firms, essentially of a pyramidal nature.

The emergence of the pyramidal market, and the need to cope with it, necessitated the reformation of the banking sector, the privatization of state-owned banks –holding 97 percent of deposits in 1996- the strengthening of private banks, etc. The need also surfaced for undertaking legislation and institutional improvements to create a

lending enabling environment. Despite the shortfall of the banking system to channel funds to market needs, the rise and fall of pyramid firms and foundations, contributed to building the awareness of the public to put deposits in the banks. Essentially, in the following years, the banks' role grew in the public's eyes. This positive trend was accompanied with significant increases in the number and amounts of deposits. In this particular case, the banks rose above the threats and managed to ignore the lure of competition by the pyramidal market, aided also by the fact that bank mediation in the economy was as yet weak, therefore, overall, the banks were not blamed for what happened.

The second threat was due to the confidence crisis of March-April 2002. Negative forces settled in the banking sector in spring 2002. In the month of March 2002, the two largest banks, the Savings Bank and National Commercial Bank, gave out 12.1 billion leks. In April citizens withdrew 9.4 billion leks out of these banks. This massive withdrawal was not justifiable in terms of the real situation of the banking sector, which had progressively improved its standing in terms of regulatory and supervisory measures, ultimately leading to improved performance indicators¹. A review of the situation at the time of the start of the withdrawal frenzy, reveals three major events in the life of the country: the adoption of the new Law "On Deposit Insurance," the passing of additions to the Law "On the compensation of former owners" and the privatization of the Savings Bank. At first sight, it seems that these three events are totally disconnected; however, all three of them converge on the state budget. Both the compensation of the former owners and the privatization of the Savings Bank put strain on the state budget. Increased amounts of money in circulation might increase inflationist pressures, as uninsured bank deposits were being used extensively to finance the budget deficit. In this manner, a spiral was started, which, in the conditions of uninsured bank deposits, became more threatening and tangible. In this atmosphere, the region of Fier-Vlorë was swept by what appeared to be a banking panic. However, with few exceptions, the panic remained isolated in this particular region.

The second victory of the banking system was, primarily, due to the timely response, without causing any delay whatsoever, to the withdrawal requests by the population. Given a highly liquid banking sector (as per balance sheet of 31 December 2001, 52 per cent of assets were in government bonds and only 8 percent in credit), they had no difficulty in coping with the long lines of depositors waiting to withdraw. Secondly, the phenomenon hit only two state banks: the Savings Bank and the National Commercial Bank. Although the National Commercial Bank was privatized, many depositors still regarded it as a state owned bank. Thirdly, the banking panic forced the lawmakers to pass the law on deposit insurance. This law was adopted on March 29, 2002. With its pledge to return 100 percent of the first band of ALL 350,000 and 85 per cent of the second band of ALL 350,000, the law pacified depositors' fear, attesting at the same time to the stability of the banking sector.

¹ For more information see: Shkëlqim Cani and Ilir Vika: "Krizë e konfidencës – Shkaqet prapa hemorragjisë së depozitave bankare" (The Confidence Crisis – The reasons behind the bank deposit hemorrhage), Bank of Albania, July 2002

The third threat was created by the effects of the global financial crisis of October 2008, following the collapse of Lehman Brothers in September 2008. Although the Albanian banking system was not directly related to the international financial markets, the trade and economic transactions with other countries created insecurities and negative effects on the economy. One such negative effect came from emigrant remittances. Since the first transition years, Albania received substantial remittances from its emigrants abroad, mainly in the neighboring countries of Greece and Italy, and such developed countries as USA, Germany and Canada. In 2008, their remittances accounted for about 800 million Euros, which represents a reduction of 16 percent compared to the previous year².

Table 7 shows the progression of bank deposits as of December 31, 2007, September 30, 2008, December 31, 2008 and March 31, 2009. The first nine months of 2008 show a steady growth in bank deposits, whereas the following six months, which correspond with the onset of the global financial crisis, show a decline in deposits. Thus, compared to September 2008, in December 2008 deposits in the local currency declined by 7.2 percent and foreign currency deposits fell by 12.4 percent. In March 2009, deposits reached their lowest level compared to September 2008; they were down by 9.5 percent and again it is the foreign currency deposits that declined even more (12.6 percent). These changes in deposits were a direct consequence of the perception of the crisis by depositors at large, of the uncertainty and fear that this crisis would hit the Albanian economy, too. Once more, the deposit trend becomes an indicator of the lack of confidence not just in the banking system, but in economic growth, in general.

Table 7: Progression of deposits prior to and following the financial crisis (million leks)

| Indicator | December '07 | September '08 | October '08 | November '08 | December '08 | January '09 | February '09 | March '09 |
|------------------|--------------|---------------|-------------|--------------|--------------|-------------|--------------|-----------|
| Total deposits | 602,653 | 667,656 | 641,349 | 627,126 | 619,887 | 619,988 | 610,672 | 604,384 |
| Of these in | | | | | | | | |
| Leks | 351,181 | 370,018 | 359,065 | 354,491 | 359,187 | 353,216 | 346,895 | 344,306 |
| Foreign currency | 251,472 | 297,638 | 282,284 | 272,635 | 260,700 | 266,773 | 263,777 | 260,078 |

The banking system successfully withstood this threatening wave, too. The experience it had gained during the confidence crisis proved useful in overcoming a situation which was due not to people's distrust in the banking sector, but to the way in which the public perceived the potential effects of the global crisis on the domestic economy. Once again the banks responded expeditiously to every withdrawal request, convinced that the money would return in the system in a few months. These expectations were fulfilled. By April 2009, deposits started to grow again.

What can be considered a lesson learned from the third threatening wave is that the perception of uncertainties in the financial system can be immediately translated into deposit withdrawals. In the absence of capital markets, in which uncertainty, fear and/or distrust activate certain given indicators, deposit withdrawal turns into a barometer of confidence or uncertainty in the face of upcoming events.

² Bank of Albania: Annual Report 2008, p. 55.

VII. NEW STANDARDS AND STRUCTURAL IMPROVEMENTS TO STRENGTHEN THE BANK'S ACTIVITY

After 1992, notwithstanding the creation of a two-tier system, the onset of restructuring and privatization of state-owned banks, the increasing number of foreign banks, with both state-owned and private capital, it was still difficult to read bank ledgers and to analyze their financial standing in the light of the long time established practices of the free market economies. Accounting rules were obsolete and not unified. Introduction of a **new accounting plan** was needed to improve the reading of banking operations, to improve performance measurement and to allow interbank comparison. The process of designing the accounting plan began in November 1996, under the Phare program on banking reform, and was completed in November 1998. The purpose was to draft the accounting plan in accordance with international accounting standards and the EU recommendations on accounting. The project was implemented with the help of the French experts hired by the company “Ernst & Young.”

This project was implemented successfully. January 1, 1999 marks the launching date of the standard accounting process in banks across Albania.

A new structure was created to facilitate the privatization of state-owned banks; as mentioned above, this structure was called the Loan Handling Agency. The agency was created by Law no. 8339, dated 30 April 1998, “On the establishment of the Loan Handling Agency.” Its mission was to deal with the bad loans of the state-owned banks in order to clean the bank books of these loans and prepare them for privatization. The Agency was assigned not only to transfer the loans in terms of ledgers and books, but it was also responsible to follow up and collect them. The Agency is still active, but only as concerns the collection of loans transferred from state banks in 1998-2000. The rapid increase of the number of banks until the year 2000, and the need to build a safe, reliable and sustainable banking market, called for deposit insurance through an effective insurance scheme. Law no. 8873, dated 29.03.2002, “On Deposit Insurance” created the legal basis for deposit insurance and compensation. It also provided for the creation of a responsible institution. This institution is called the **Deposit Insurance Agency** and was established in October 2002. The main objective of the Agency is to insure and back up deposits, contributing, thus, to the stability of the financial system in the country.

Law No. 8873, dated 29.03.2002, “On Deposit Insurance,” was changed by Law No. 10106, dated 30.03.2009, “On some amendments and additions to the Law No. 8873, dated 29.03.2002 ‘On Deposit Insurance.’” The changes were made to harmonize the Albanian Law with European legislation on deposit insurance, to strengthen the role of the Deposit Insurance Agency, increase the effectiveness of the deposit

insurance scheme - as part of Albania's obligations towards EU integration - and create an enabling environment for the operations of the banking sector. One of the important changes was to raise the ceiling of insured deposits to ALL 2.5 million for each depositor at each insured bank. Any entity seeking to conduct banking business in Albania, has the obligation to participate in the deposit insurance scheme. The deposit insurance scheme includes all banks and branches of foreign banks in Albania, wherein they contribute and pay insurance premiums as required.

Another improvement in the banking market with positive effects on credit risk management is the creation of the Credit Registry. The establishment of the Credit Registry and the role of the Bank of Albania in relation to it are enshrined in Article 127 of Law No. 9662, dated 18.12.2006, "On Banks in the Republic of Albania." The Credit Registry is the electronic database containing identification and financial data (credit exposures in the banking and/or financial sector) related to entities (individuals, physical and legal persons), applying for bank loans with a local bank, the branch of a foreign bank, or other lending institutions.

The Credit Registry serves for two main purposes:

- To assess and minimize credit risk for the lender, by contributing to the creation of an enabling lending environment;
- To strengthen and improve bank supervision based on risk assessment.

The Credit Registry was made operational on 3 January 2008, at the Bank of Albania.

At first, only banks and branches of foreign banks reported to the Credit Registry. Starting from 19 November 2010, the database is enriched with data reported by 5 new non-bank entities. Thus, currently participating in the Register are 16 banks and branches of foreign banks, 3 non-bank financial entities involved in lending and 2 unions of saving and credit entities representing their members.

The borrowers report generated by the Credit Registry as a service to its users provides information on the amount of the loan, repayment schedule, the amount of arrears, credit collateral, the credit lines which the borrower is bound to, the status of the credit in the last two years, etc. The history of loan repayment helps banks and non-bank entities make informed decisions in granting new loans, thus reducing the risk of bad credit.

The reporting entities enter the loans they make on a daily basis and update the status of loan repayment at the end of each month. The Registry contains positive and negative data about borrowers. These data will be preserved in the registry for 5 years after loan repayment.

The reformation of the regime and the creation of the property registry (movable and immovable) had a significant positive impact on the lending activity.

Efforts to regulate the *Real Estate Registry* go back to 1994 with the adoption of Law No. 7843, dated 13.7.1994, "On the registration of real estate," changed three times (March 1996, May 2005, April 2007), until it was repealed by the new Law No. 33/2012, dated 21.03.2012, "On the registration of real estate."

According to the legal framework, the scope of activity of the Immovable Property Registration Office includes the registration of property titles and other real rights on immovable property, based on legally valid documents, as well as the preparation, maintenance and management of real estate records, maps indicating the location of the registered property as well as the administration of documentation proving ownership rights and other real rights over immovable property.

The *Register of Security Charges* represents a new development in the registration of immovable property. This Registry was created in 2001 under Law No. 8573, dated 18.10.1999, "On Security Charges," as amended by Law No. 9524, dated 25.04.2006 and Law No. 10185, dated 26.11.2009. This register is regulated by Order of the Minister of Economy, Trade and Energy (METE), No. 493, dated 6.07.2006, "Regulation of Security Charges." Since April 2009, the operation and management of the registry functions was placed with the ROEN Company (The Register of Security Charges and its component parts remain the property of the METE). This register is the "mortgage" of movable property.

The register has two functions:

1. To register the security charges on account of chargers (creditors) on chargees' (debtors'); movable tangible and intangible property and
2. To make available to vendors and buyers an information database with tangible and intangible assets that may be used as collateral.

The Register of Security Charges is comprised of two parts: the client database and the database of credit insurance transactions. The client database provides information on their financial standing, their liabilities and assets. The credit insurance database is an electronic registry wherein the clients enter their security charges, extend the deadline of such securities and record the changes and expiration of existing security charges.

The main customers of the register are the commercial banks and branches of foreign banks, lending organizations and institutions, leasing companies, legal and notary studios, local and central tax authorities, as well as the individuals with a stake in security charges.

VIII. FUND AND PAYMENT TRANSFER

One of the most important banking services offered by the banking sector is the transfer of funds and payments for various purposes. Payment systems are the channels through which funds are transferred from bank to bank and among a number of banks. The payment system serves to transfer money. What makes it a “system” is the use of cash substitutes. Traditional payment systems are negotiable instruments such as cheques and credit documents (letters of credit). With the advancement of computers and electronic communications, a large number of alternative systems of electronic payments have been developed. These include debit cards, credit cards, electronic fund transfers, direct credit, direct debit, internet banking and the system of electronic trading payments.

Payment systems can be physical or electronic, each having its own protocol and procedures. Standardization has allowed some of these systems and networks to grow globally, but there are still specific systems depending on the country and the product. For example, credit cards and automated teller machines (ATM) are examples of global standardization. The specific forms of payment systems are related to financial transactions in the stock, debt and currency markets.

The term electronic payment, in its strict sense, refers to an electronic trading payment (paying goods and services purchased on the Internet); in its broadest sense it refers to any type of electronic transfer of funds.

Given the importance of safe and reliable transfer of funds for the implementation of transactions, the payment system has a direct impact on financial stability. In other terms, the safety and efficiency of payment systems are critical to the effective functioning of the financial system.

One of the main objectives of the Bank of Albania is to oversee the normal functioning of the payment system. To fulfill this objective, the Bank of Albania has established the necessary infrastructure for payment transfer. It manages and operates a system for the real-time settlement of large value payments in the local currency, and an automatic system for settling and clearing low value payments in the country's currency.

The Bank of Albania owns and operates two interbank payment systems: the real time payment system and the system for small value payment clearings.

The Albanian Interbank Payment System

The Albanian Interbank Payments System (AIPS - Albanian Interbank Payment System) is a real-time gross settlement system. All interbank payments are processed in the Albanian lek. This system is based on the SWIFT FIN Y-copy with 16 banks

participating directly. These banks are members of the CUG¹ (SWIFT).

The system started to operate live on 31 January 2004. AIPS opens every workday at 8:00. It settles interbank and customer payments until 15:30. From 15:30 to 16:00 it accepts interbank payment settlements and transactions initiated by the Bank of Albania. The system starts closing at 16:30.

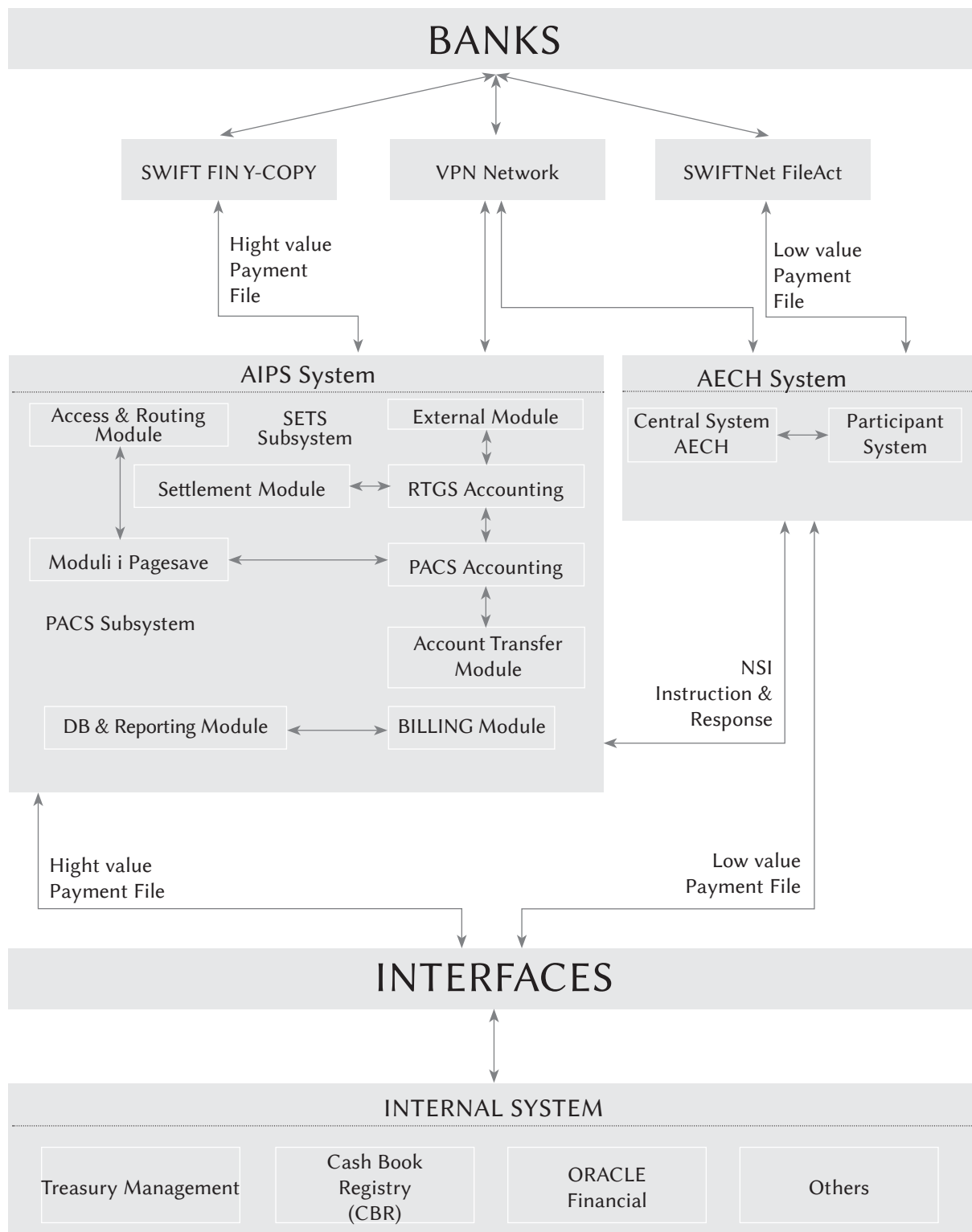
AIPS functioning is regulated by Decision No. 53, dated 26.09.2007 of the Supervisory Council of the Bank of Albania “On the functioning of the Albanian interbank payment system – AIPS”

Albanian Electronic Clearing House

The Bank of Albania provides clearing services since 1997. This service provides clearing of cheques and interbank payments ordered by clients. The Albanian Electronic Clearing House (AECH) is an electronic clearing system that enables the exchange of files over payment instructions among participants, the calculation of net multilateral positions and delivering a net settlement instruction to the AIPS. Designed to conduct transactions up to 1.5 million leks, the system began to operate live on 8 July 2005. With 16 banks participating directly, AECH is based on the services provided by SWIFT. Payments of the Finance Ministry -an indirect participant of the system- are settled through the technical account of the Bank of Albania.

According to the established time schedule, the central AECH carries out three clearing sessions in one working day. The first session starts at 8:30 and ends at 10:15, the second session starts at 10:30 and ends at 12:45 and the third session starts at 13:00 and ends at 15:00. AECH is closed at 16:15. Interbank and personal cheques continue to be cleared through physical exchange in the clearing sessions taking place every day at 13:00 at the Bank of Albania. AECH functioning is regulated by Decision No. 55, dated 26.09.2007 of the Supervisory Council of the Bank of Albania, “On the functioning of the Albanian Electronic Clearing House – AECH.”

¹ CUG (Closed User Group) – SWIFT users clustered for purposes of using the SWIFTNet FileACT.



After 2000, the banking sector has been increasingly supplying the market with various types of electronic payments. These payment instruments are being introduced for the first time in the country. The debit cards were the first to be introduced, followed by a more gradual introduction of the credit cards. Subsequently, the ATM-s and POS-s were installed. Tables 8 and Table 9 reflect the progression of introduction of banking cards, ATM-s and POS-s. From 2004 -the baseline year- infrastructure has improved rapidly and banks are making ever greater efforts to benefit from these new instruments. At the end of 2011, 11 banks had issued their cards; however only 7 of these banks are licensed to accept cards (payments through POS).

Table 8: Number of cards according to function

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|-------------|--------|---------|---------|---------|---------|---------|---------|---------|
| Debit Card | 33,288 | 217,799 | 229,021 | 427,430 | 482,072 | 543,141 | 667,548 | 687,597 |
| Credit Card | 806 | 2,686 | 9,754 | 10,439 | 15,246 | 22,793 | 27,300 | 31,391 |

Table 9: Number of POS-s and ATM-s in years

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|-----|------|------|-------|-------|-------|-------|-------|-------|
| POS | 155 | 779 | 1,234 | 1,832 | 2,953 | 4,370 | 4,903 | 5,126 |
| ATM | 93 | 205 | 309 | 433 | 642 | 741 | 771 | 805 |

Despite the rapid quantitative growth, actual electronic payments remain at low levels. In 2011 they accounted for only 2.46 percent of customer payments. A positive phenomenon is that the number of Internet accounts is growing. They have increased from 15 thousand in 2009 to 37 thousand in 2011. Similarly, the number of credit and debit cards continues to grow.

IX. THE MINIMUM CAPITAL REQUIREMENT

The number of bank establishing and licensing applications has increased in tandem with other economic dynamics, such as economic growth, bank stability, observance of international standards, changes in the exchange rate, and prevention of speculative investments.

Until 1995, there were no clear requirements about bank capital. The new banks' capital levels were considered on a case by case basis, by Parliament Law or Bank of Albania Decrees. For example, on April 29, 1993, the Bank of Albania Governor adopted the document submitted by the Bank's Supervision Department, "On commercial banks' capital, reserve and division of profit," which established the minimum amount of intangible capital (in million ALL) for state-owned banks as follows:

| | |
|-------------------------------------|-------|
| National Commercial Bank | 2,700 |
| Savings Bank | 700 |
| Bank of Agriculture and Development | 800 |

When the Italian-Albanian Bank started its operations in July 1993, its capital was 10 million USD and was signed off by Banca di Roma and the National Commercial Bank of Albania, pursuant to the agreement dated 26 November 1992, made by the Bank of Albania, the National Commercial Bank and Banca di Roma. By Law No. 7649, dated 16.12.1992, "On the establishment of the joint stock Italian-Albanian Bank," the Albanian Parliament approved the establishment of this bank and its articles of association.

The first regulation on bank operating licenses was dated May 12, 1994. This document established the regulatory basis and set out the requirements for obtaining a license to conduct banking activities. This regulation was followed by a subsequent regulation on June 14, 1995. This was Decision No. 12 of the Supervisory Board, regarding licensing of entities designed to operate as a private bank in the Republic of Albania. This regulation established the minimum capital requirement of ALL 100 million for private banks with entirely Albanian capital and ALL 200 million for private bank with entirely foreign capital or with both Albanian and foreign capital.

The amount of initial capital to operate a bank grew to ALL 200 million by Decision No. 15, dated 28 June 1996, which reflected the requirements of Law no. 8075, dated 22.02.1996, "On the banking system in the Republic of Albania."

Due to the political and financial crisis that gripped the country following the collapse of pyramid schemes in 1997 the Albanian lek significantly depreciated against the dollar (from ALL 100/USD the exchange rate jumped to ALL 170/USD). The depreciation forced the Supervisory Board to increase the minimum capital required to open a bank from 200 million to 350 million (Decision of the Supervisory Council, number 16/4/97). The amount was payable in lek or its equivalent in dollars.

The most important decision of this period with regard to the minimum capital requirements for bank incorporation was Decision No. 43 of the Supervisory Council of the Bank of Albania made in March 1998. This decision raised the minimum capital requirement to ALL 700 million in effort to approximate domestic legislation with relevant international standards for effective bank supervision, on the one hand, and attract serious investors into the banking market, on the other hand. The decision was important because it did not apply only to new banks, but also to existing banks, which were required to bring their minimum capital up to the new threshold.

However, the existing banks were given a three year period over which they were required to fulfill the newly established condition in two stages. In the first stage, expected to last 18 months, they would have to increase their capital to ALL 500 million, and in the second stage, 18 months later, the amount of ALL 700 million would have to be established. In November 1999, another decision was passed fixing the deadline of the new capital requirement on March 31, 2001.

The last change to the minimum capital requirement was established by Decision No. 14, dated 11.03.2009 approving the Regulation, "On the licensing and running of banks and the branches of foreign banks in the Republic of Albania." According to this decision, the person or persons seeking to exercise financial and banking activity in the Republic of Albania, through the establishment and licensing of a bank, or a foreign bank seeking to exercise financial and banking activities in the Republic of Albania through establishing its own branch on the Albanian territory, are required to deposit a minimum initial capital of not less than ALL one billion with the Bank of Albania.

X. PROGRESSION OF THE BANKING SECTOR

The banking sector performed poorly in the first decade of the post-communist era. To support this conclusion, in the following section reference will be made to the three milestones over this period representing the most remarkable achievements, as the cumulative function of efforts made in the previous years leading up to these milestones.

The *first milestone* is the year 1994. The positive effects of changes made in the previous years, such as the creation of the two-tier system and entry of several foreign banks in Albania's banking market became apparent in 1994. The banking sector, as a whole, loaned ALL 7,375.3 million and received ALL 4,992.3 million in settlements. Seventy four percent of the lending went to the private sector, which used 69 percent of the proceeds in short-term commercial activities, and the rest of the proceeds were used in the longer-term purchase of machines to be used in agriculture, construction, etc. The state owned sector used the resources in long-term investments to build apartment flats by the National Housing Entity; the shorter-term loans were given to the heavy mining industries, farming enterprises, etc. Outstanding loans represented 27 percent of the loans granted, of which only 32.6 per cent belonged to the private sector and 39 percent to short-term loans in the state owned sector. At this time, the sector was still dominated by state-owned banks.

The *second milestone* is 1998, as it is the year of restituting law and order following the events of 1997. Table 10 provides some indications on the situation of the banking sector at this time.

Table 10: Banking sector at the end of 1998

| Banks | Number of branches | Total of deposits to the liabilities % | Total of credits to the assets % | % of bad loans to total of credit | Treasury bonds in % to the banking sector |
|---------------------------------------|--------------------|--|----------------------------------|-----------------------------------|---|
| State owned banks | | | | | |
| National Commercial Bank | 10 | 74.3 | 5.2 | 84.1 | 0.7 |
| Savings Bank | 33 | 88.4 | 6.3 | 50.7 | 97.6 |
| Private and joint stock banks | | | | | |
| Italian-Albanian Bank | 1 | 63.4 | 41.4 | 8.4 | 0.5 |
| The Islamic Arab-Albanian Bank | 1 | 10.9 | 0.0 | 0.0 | 0.0 |
| Dardania Bank | 1 | 12.6 | 2.4 | 16.5 | 0.0 |
| Tirana Bank | 2 | 63.3 | 18.0 | 20.3 | 0.5 |
| Branch of the National Bank of Greece | 1 | 81.1 | 0.0 | 0.0 | 0.3 |
| International Commercial Bank | 1 | 48.8 | 31.0 | 0.0 | 0.1 |
| The American Bank of Albania | 1 | 44.5 | 12.5 | 0.0 | 0.2 |
| Banka Amerikane e Shqipërisë | 1 | 44.5 | 0.0 | 0.0 | 0.0 |

Despite the increasing participation of foreign capital and the significant increase in the number of banks – a sign that confidence in the country’s development was starting to grow - the intermediary role of banks in the economy, i.e., their lending function to individuals and legal entities, remains weak. On the passive assets side, deposit collection prevails, and on the active assets side, treasury bills investments take the lead. State banks continue to dominate.

Loan portfolio quality was very bad. State-owned banks were a failure as their lending portfolio was overwhelmingly problematic. For one whole year after the events of 1997, i.e., during 1998, lending by state-owned banks was banned. In February 1998, by Decision No. 6, the Supervisory Council of the Bank of Albania, decided to ban lending by state-owned banks. Given that these two banks were in the process of privatization, this decision was a measure to prevent the further deterioration of their loan portfolios and their financial situation, which would ultimately lead to the reduction of their marketable value. A few days later, in the same month of February 1998, By Decision No. 10, the Supervisory Council of the Bank of Albania, ordered the immediate suspension of lending by Dardania Bank due to the deterioration of its loan portfolio.

The year 2000 is the **third milestone**, since it is the year of the privatization of the first state-owned bank. This act relieved the banking sector from government influence and created opportunities for foreign banks to enter the market. In addition, the successful privatization of the National Commercial Bank paved the way for the privatization of the Savings Bank in the foreseeable future.

The Bank of Albania Annual Report 2000 makes an interesting description of the banking sector:

The Savings Bank Ltd has the more extensive coverage of the country with 223 offices in 37 districts, divided as follows:

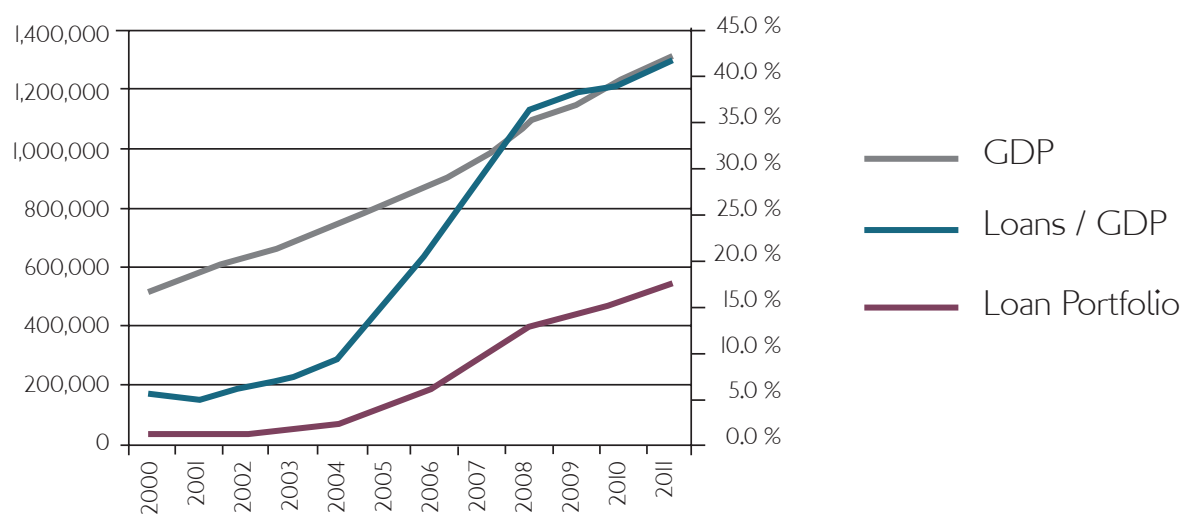
| | |
|------------------------|------------|
| <i>Branches</i> | <i>26</i> |
| <i>Agencies</i> | <i>87</i> |
| <i>Banking offices</i> | <i>110</i> |

The total assets of the Savings Bank Ltd., make up 62.6% of assets in the banking system. Total deposits received and citizen deposits make up respectively 69.3 and 62.8 percent of the total banking system. The Savings Bank owns about 84.2 percent of deposits in Albanian leks and about 43.4 percent of the total credit stock. The dominant position of this bank is also evident in the treasury bill investment with 84.2 percent. In December 2000, the total assets of the Savings Bank per one hundred thousand inhabitants were 5.18 billion leks. Regarding the volume of payments, too, the position of the Savings Bank, is dominant with 39% of the clearing activity, 38 percent of payment orders and 39 percent of total banking cheques in the system.

This situation continued more or less unchanged until 2004. With the privatization of the largest bank in the country, the banking market changed. Given its economic stability, the success of structural reforms, the lessons learned from the events of 1997, the low inflation levels and exchange rate stability, Albania was heading for its best of years since 1990. Not only were the banks part of this optimistic and attractive business environment, but they also became the ushers of new products and services. After 2004, the banks start to lend for individual consumption and home buying. This is the year of large scale electronic services - electronic cards and electronic banking. Banking services improved at greater speed and less cost and participation of banks in the development of the financial market expanded.

As a result, bank lending in 2005 rose by 82 percent compared to 2004 (or ALL 57.6 billion). In 2006, compared to 2005, lending increased by 55 percent. In 2007, compared to 2006, an increase of 50 percent was noted. Following 2007, growth rates started falling, initially with 37 percent in 2008 and by nearly 10 percent in the subsequent years. Graphic 1 reflects the performance of the loan portfolio.

Graph I. Developments of the credit portfolio in the banking sector



Proof of the important contribution of banks in the economy, is the ratio of loans to the gross domestic product (GDP). In 2004 the ratio was 9.3%; in 2007 it amounted to 29.7% and to 41.5% at the end of 2011.

It should be noted that banks in Albania have been liquid at all times. Domestic resources have been sufficient to fund investments in the economy, with the exception of large-scale foreign currency projects by the government funded through foreign debt. At the end of 2005, foreign funding accounted for only 2 percent of the total amount of liabilities, while at the end of December 2008, the figure rose to 8.6 percent. Deposits increased from 45% of the GDP in 2003 to 67% in 2011.

Although the banking sector has been under the threat of the global financial crisis, the temporary deposit decline has been followed by periods of greater influx. The expansion of the network of branches and banking agencies contributed to higher lending rates. The year 2004 marks the rapid expansion of the banking network with 30 branches and agencies, whereas the year 2005 saw an acceleration of the network's growth rate. Thus, 48 new branches and agencies were opened in 2005, with a good part (23) in Tiranë; however, a significant number was opened in those small towns of the country, which were not adequately covered. In 2008, 113 branches and agencies were established and began operations, bringing the total number of branches and agencies to 517 up from 404 in 2007. The number of branches and agencies continued to grow in 2009, too, (17 branches and agencies). Nevertheless, for the first time in this year, underperforming branches and units started to close (4 branches closed down in 2009). However, the number of branches and agencies remained high. At the end of 2009 this number was 530. The year 2009 saw another achievement yet. In this year, eight new requests to provide e-banking products were granted. These include: internet banking, electronic cards, ATMs and POS. It can be said that the banking sector raced against time to complete the range of banking products and services.

However, despite the remarkable achievements - expansion of coverage, deposit growth and introduction of a wide range of electronic products - the banking sector began to feel the adverse effects of the rapid growth of the loan portfolio and the negative externalities of the global financial crisis. The performance of the banking sector in 2009, in terms of the net result, has been significantly poorer than in 2008. In addition, 2008 changed the trend of the results. For the first time in 2008, the capital shares were ALL 2.6 billion less than in the previous year. The net result gained during 2009 was about 52% less than the previous year, with loan provision expenses taking up a decisive weight. The loan portfolio quality indicator – the ratio of bad loans to total loans - deteriorated from 6.64% at year-end 2008, to 10.48% in December 2009. This ratio increased to 18.8 percent at year-end 2011, which caused banks to strengthen loan screening procedures and exercise greater control over the existing portfolio. A positive characteristic of the immediate period following the global financial crisis was that the shareholders did not divide end of year profits. In anticipation of a possible increase of non-performing loans, they reinvested it. In some banks, the shareholders even injected new capital to maintain stability and capital adequacy in order for the banks to continue to run smoothly. Consequently, bank capital share rose from 26 billion in 2004 to over 97 billion in 2011. This made it possible for the capital adequacy indicator to remain above the minimum of 12% required by the supervisory authority (15.6% in 2011).

An overview of the banking sector at the end of 2011 is given in Table 11.

Table II: The Banking Sector in December 2011

| Banks | Origin | Assets to total assets % | Loans to assets % | Deposits to liabilities % | Own capital | Net profit | Number of branches | Number of employees |
|-----------------------------|----------------|--------------------------|-------------------|---------------------------|-------------|------------|--------------------|---------------------|
| Alpha Bank – Albania Branch | Greece | 6.5% | 52.2% | 82.9% | 68,708 | (4,226) | 45 | 386 |
| National Commercial Bank | Turkey | 17.6% | 41.7% | 84.8% | 106,947 | 20,641 | 80 | 1,059 |
| Credins Bank | Albania | 7.4% | 69.6% | 84.7% | 54,919 | 11,921 | 44 | 589 |
| Credit Bank | Kuwait | 0.2% | 15.5% | 20.7% | 8,911 | (170) | 2 | 31 |
| Emporiki Bank | Greece | 2.9% | 73.3% | 39.6% | 29,338 | (5,935) | 22 | 254 |
| First Investment Bank | Bulgaria | 0.8% | 44.4% | 82.5% | 8,392 | (530) | 9 | 112 |
| International Bank | Malaysia | 0.8% | 27.2% | 70.6% | 10,319 | 215 | 8 | 85 |
| Intesa Sanpaolo Bank | Italy | 11.9% | 38.1% | 79.2% | 104,794 | 17,759 | 31 | 543 |
| NBG – Albania Branch | Greece | 3.4% | 73.8% | 79.5% | 51,752 | 1,305 | 27 | 265 |
| ProCredit Bank | Germany | 3.5% | 59.8% | 80.2% | 31,409 | 2,004 | 40 | 640 |
| Raiffeisen Bank | Austria | 28.2% | 41.8% | 86.7% | 210,140 | 50,538 | 103 | 1,471 |
| Societe Generale | France | 5.0% | 53.1% | 83.0% | 43,871 | 2,421 | 42 | 371 |
| Tirana Bank | Greece | 8.2% | 62.5% | 74.4% | 120,679 | 5,505 | 56 | 469 |
| Union Bank | Albania | 2.1% | 49.7% | 83.5% | 15,624 | 883 | 29 | 276 |
| United Bank of Albania | Arabia Saudite | 0.5% | 29.0% | 75.3% | 10,840 | 261 | 6 | 75 |
| Veneto Bank | Italy | 1.2% | 71.7% | 60.6% | 21,851 | 333 | 9 | 88 |
| Total | | 100.0% | | | 898,494 | 102,925 | 553 | 6,714 |

Note: Capital and profit data are given in Euros.

Source: Albanian Association of Banks, Annual Report 2011.

By Dr Spiro Brumbulli

ALBANIAN ASSOCIATION OF BANKS



The Albanian Association of Banks (AAB), created originally as the Albanian Bankers Club (in March 1999), is now the unified voice of the banking industry in Albania with 16 commercial banks, with assets worth around 8.5 billion Euros, and about 6800 employees.

Through a combination of the experience, insight and expertise, and valuable human resources of its members, and the collaboration with national and international organizations and institutions, AAB aims at the better presenting and improving banking and financial services of member banks, increasing the potential of their human resources, and making the banking system in Albania more successful.

HISTORICAL VIEW

In a friendly meeting held on 31 March 1999, the Executive Directors of nine banks decided to create in Tiranë the Albanian Bankers Club. The Founders approved the organizational chart of the Club, elected the administrative structures and the chairman, and ever since the banking system has been represented by this union.

Two years later, in March 2001, with the subsequent membership in the club of four other banks, the managerial structure of the Albanian Bankers Club decided to transform it into the Albanian Association of Banks (AAB), and drafted a new charter which stipulated that AAB shall be represented by its Chairman and the Executive Committee.

The essence of the activities undertaken by AAB has been that of achieving its mission in fostering and representing the interests of its members, enhancing the role of commercial banks in the economy, promoting the banking sector in the international banking environment, and supporting the full and fair competitiveness and cooperation amongst its members.

Through the active participation of its members, the Albanian Association of Banks has been working to assess and prosperity of financial services and increase the human resource potential in the banking market. With the aim to convey the views and ideas of its members, the Association has continuously interacted with the Central Bank, financial services authorities, the Government and European and International institutions.

Over the years, the organizational and legal basis that supports the activities of the Association, have significantly improved. The Charter has been revised and amended several times, the most recent version approved in 2011, with significant changes and additions aiming at: the better functioning of the Assembly, the establishment of the Secretariat and defining its powers and duties, the increase of the number of the Executive Committee for better representation, and the increase of the contribution of member banks to the financial resources that support the growing activities of the Association.

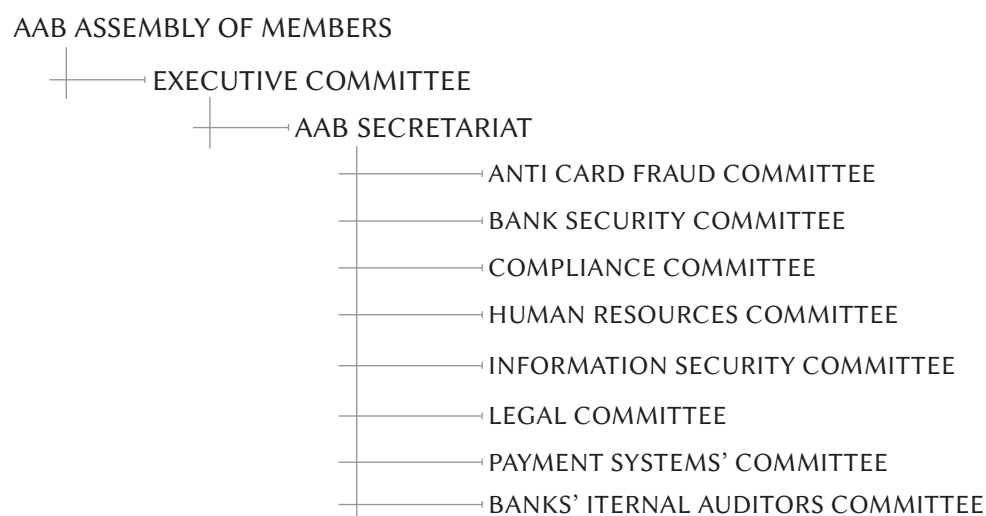
In these years, the Association has built a satisfactory level of transparency, becoming an institution open to any interested party, by using different methods to achieve transparency, ranging from the classic ones such as publications, to the more modern ones, such as updated information on the internet, coming to the most recent, serious and professional periodical BANKIERI magazine.

MILESTONES

- March 31, 1999** - 9 Banks: American Bank of Albania; Arabic-Islamic Bank; Dardania Bank; Fefad Bank; International Commercial Bank; Italian-Albanian Bank; National Commercial Bank; Savings Bank; and Tirana Bank, assemble and establish the creation of the Albanian Bankers Club. The first Board of Directors shall be composed by: Chairman Mr Giancarlo Rizzola, General Director of the Italian-Albanian Bank and Vice Chairman Mr Lorenzo Roncari, President and CEO of the American Bank of Albania.
- 27 March 2001** - Four other banks: Alpha Bank; National Bank of Greece; Intercommercial Bank; and First Investment Bank - Albania Branch, join the Founders of the Albanian Bankers Club, and together decide on the transformation of this the latter into the Albanian Association of Banks (AAB). They amend the Charter and elect the new members of the Board of Directors: Chairman Mr Ardian Fullani, CEO of Italian-Albanian Bank and Vice Chairman Mr Dimitris Karavias, General Director of Tirana Bank.
- 12 December 2002** - The first technical committees start gathering, with members representing all AAB member banks: the Operational Committee, the Legal Committee and the Financial Committee.
- 26 March 2003** - The Assembly of Members undertake some significant changes in the Charter of the Association, among which the possibility of re-election of Board Members with a two-year term, and the establishment of AAB Secretariat as a separate body.
- 23 April 2003** - Based on its demand and upon fulfillment of the necessary criteria conditions, the Association of Banks is accepted as “Associate Member” of the European Banking Federation in Brussels, Belgium. This membership was achieved thanks to the cooperation with neighboring countries banks associations of Italy, Greece, Bulgaria and Croatia, and marks the most significant effort in the cooperation with international banking organizations and integration in the European banking industry.
- January 2004** - AAB along with 6 regional Banking Associations sign a Memorandum of Understanding and establish a forum that shall aim at supporting the banking industry in the Balkans, namely the InterBalkan Forum of Banking Associations.
- March 2005** - The Charter and structure of the Associated are amended and for the first time a Secretary General is appointed (Mr Elvin Meka), marking a further step towards the more qualitative functioning of the AAB Secretariat, in compliance with international banking associations models. Since January 2005 the Executive Committee is Chaired by Mr Seyhan Pencabliligil, with Vice Chairman Mr Steven Grunerund.

- May 2007** - The Secretariat of the Association settle in the new (current) offices, with proper capacity for meetings and trainings, and with already three staff members in its structure. The Executive Committee is chaired by Mr Edvin Libohova as Chairman, and Mr Steven Grunerund as Vice Chairman.
- 15 May 2008** - In cooperation with Bank of Albania and the “Convergence” program of the World Bank, AAB supports the creation of “SPI Albania” (Special Projects Initiative), as an initiative of public-private cooperation, with the objective of modernizing the Albanian financial system, through the development of a culture of dialogue and consensus building.
- 26 January 2009** – The Assembly of Members elects new members to the Executive Committee with Mr Libero Catalano as Chairman and Mr Oliver Whittle as Vice Chairman. Mr Catalano shall be replaced in this position by Mr Gazmend Kadriu, who held the Chairmanship of the AAB from 10 May 2010 - 26 January 2011.
- May 2011** – The Assembly of Members approves additional substantial changes to the Charter of AAB, which at the same time increase the financial resources available to its activities as well as the representation of banks on the Executive Committee. The latter is now composed by 6 members, and membership fees will be paid in proportion to the weight of each bank’s assets on the total assets of the system. Since January 2011 Chairman of the Executive Committee is Mr Seyhan Pencabliligil and Vice Chairman Mr Ioannis Kougionas.
- August 2011** – Upon approval of the Executive Committee AAB becomes a member of BACEE - the Banking Association for Central and Eastern Europe.
- October 2011** - AAB publishes the first issue of the magazine “Bankieri”, a professional publication of the Association. The magazine is a periodical bilingual publication with quarterly frequency.
- 15 March 2012** - The Executive Committee approves the proposal of AAB Secretariat for the establishment of a new permanent technical committee, the Banks’ Internal Auditors Committee. This is the eighth Technical Committee established under the auspices of the AAB Secretariat.

ORGANIZATIONAL STRUCTURE OF AAB, ON 31 OCTOBER 2012



AAB EXECUTIVE COMMITTEE

Mr Seyhan PENCABLIGIL - CHAIRMAN

CEO, Banka Kombëtare Tregtare

Mr Ioannis KOUGIONAS – VICE CHAIRMAN

CEO, NBG Bank Albania

Mr Christian CANACARIS - MEMBER

CEO, Raiffeisen Bank

Mr Periklis DROUGKAS - MEMBER

General Manager, Alpha Bank Albania

Mr Bozhidar TODOROV - MEMBER

CEO, First Investment Bank

Mrs Flutura VEIPI - MEMBER

Spokesperson of Management Board, ProCredit Bank

AAB SECRETARIAT

Ms Endrita XHAFERAJ - SECRETARY GENERAL

Ms Brunilda KOSTARE - LEGAL ADVISER

Ms Junida TAF AJ (KATROSHI) - OPERATIONS SPECIALIST

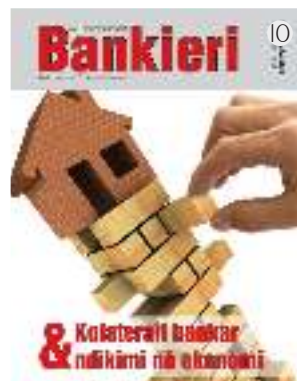
Ms Eftali PEÇI – COMMUNICATIONS SPECIALIST

Ms Marsela BULKU - ADMINISTRATIVE ASSISTANT

AAB THROUGH THE YEARS



1. Brochures on Banks issued by AAB, 2004.
2. Farewell Reception for Mr Lorenzo Roncari, ex General Director of ABA, January 2009.
3. AAB Chairmen during the years, at the celebration of the 10th Anniversary of AAB.
4. Training on PCI DSS organized by AAB, November 2011.
5. Participants at the Training on Leadership organized by AAB, September 2012.
6. Farewell Reception for Mr George Caracostas, ex General Director of Emporiki Bank, May 2011.
7. AAB Secretariat Staff.
8. Second National Forum on Anti Card Fraud, May 2012.
9. First Newsletter issued by AAB, March 2008.
10. First Issue of BANKIERI Magazine, October 2011.
11. First (2005) and actual AAB Website .
12. AAB Assembly Meeting, September 2012.



MEMBER BANKS (in alphabetical order)

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ALPHA BANK ALBANIA

Alpha Bank Albania launched operations in Albania as a branch of Alpha Bank A.E., one of the largest banks in Greece, created in 1879, with substantial presence in South Eastern Europe, the United Kingdom and Cyprus.

Alpha Bank has provided funding to the large infrastructural works in Albania such as, the International Airport of Tirana, and the telecommunications industry. It was also the first Bank in Albania to award the largest loan to the Albanian Government. It was the first to supply the Albanian market with a credit card, under two commercial names, the Alpha Bank and Vodafone (Vodafone American Express Card by Alpha Bank).



Milestones:

- 1998** - Alpha Bank launches operations in Albania as the branch of a foreign bank under the name of “ALPHA CREDIT BANK – TIRANA BRANCH” with USD 2.5 million in paid capital, known by the commercial name of “ALPHA BANK”. In 1998, the Bank disbursed its first loan to a business entity.
- 1999** – The Bank’s Dealing Room became operational and the first loans for buying housing and cars were disbursed.
- 2000** – The name of the Tirana Branch was changed into “Alpha Bank A.E. – Tirana Branch” following the change of name by the Bank in Greece. Alpha Bank A.E. - Tirana Branch started to expand outside the city of Tiranë with two additional branches. As a result, the paid capital increased substantially and so did the bank assets.



First transaction performed by Mr Yannis S. Costopoulos, Group President, at the inauguration day of Alpha Bank Albania.



Celebration event on receiving the license as exclusive issuer of American Express® cards in Albania.

- 2001** – The Albanian Securities Commission granted license to the Bank to trade treasury bills in the Tirana Stock Market.
- 2003** – The first ATM was installed and the first debit card in the local currency was put in the market. In this same year, the Bank signed an agreement with the Tirana Stock Market on the clearing of transactions carried out on the Stock Market.
- 2007** – The name of the Tirana Branch was changed into “ALPHA BANK – ALBANIA”. Seven new branches were established, including the first branch in the Northern part of the country; the first credit card called VISA CREDIT was issued; and the first credit for individuals was made available to customers.
- 2008** – The Bank celebrated the 10th anniversary of its presence in Albania; 22 new branches were added to the bank’s network in the country; and the largest loan ever for public works went to the construction of the highway Durrës – Kukës – Morinë. This same year, the Bank received license to operate as the exclusive emitter of American Express, with Web banking starting to operate as an alternative channel.
- 2009** – Paid capital increased substantially due to the capitalization of profit over 2005-2009 and now the Bank covers the entire territory of the country, with the six additional branches opened in this year.
- 2012** - Alpha Bank was transformed from the branch of a foreign bank to the subsidiary of a foreign bank by the name of ALPHA BANK ALBANIA; however, it has maintained its trade name as the ALPHA BANK.

Bank Managers over the years:

| | |
|--------------------|-------------------------|
| Andreas BARTZIS | 1998 - 2002 |
| Andreas GALATOULAS | 2002 – February 2012 |
| Periklis DROUGKAS | February 2012 – ongoing |

BANKA KOMBËTARE TREGTARE

The first branch of Banka Kombëtare Tregtare was established in Durrës on 29 November 1925, in the ancient building still serving as premises of the BKT branch in Durrës. The building has been the symbol of the first financial institution in Albania. The branches of Shkodër and Vlorë were respectively established on 1 November 1926 and 15 November 1926.

Banka Kombëtare Tregtare, as we know it today, was established in January 1993 following the merger of the Albanian Commercial Bank and the National Albanian Bank.



Milestones:

July 1997 – Banka Kombëtare Tregtare was formed as a shareholding company with a founding capital of 2.7 billion leks.

6 July 2000 – The Albanian parliament approves the sale contract between the Ministry of Finance on the one side and the Consortium of International Investors (60% of the shares), the International Financial Corporation (20%) and the European Bank for Reconstruction and Development (20%) on the other side. The transition of ownership title was made effective on 17 October 2000. The new shareholders contributed 10 million dollars which made possible a powerful capitalization of the Bank.

February 2003 – By Decision of the General Meeting of the Shareholders, the Bank's paid capital amounted to 14.64 million dollars, which made Banka Kombëtare Tregtare one of the most capitalized bank in the Albanian banking system.



Inauguration of the BKT's Branch in Kosovo, November 2007.

9 June 2006 – Following approval by the Bank of Albania and due court warrant, 60% + 2 shares of Banka Kombëtare Tregtare are transferred to the ownership of Çalik-Seker Konsorsiyum Yatirim A.S.

November 2007 – Banka Kombëtare Tregtare establishes its first branch in Prishtina, which represents the first effort of the Bank to expand into the region.

30 June 2009 – Çalik Financial Services purchases the shares of the International Finance Corporation and the European Bank for Reconstruction and Development, hence becoming the sole owner of the Bank with 100% of the shares. In this same year, Banka Kombëtare Tregtare is rated as the best bank in Albania and at the same time “The Best Bank of the Year in Southeast Europe” by Finance Central Europe.

November 2010 – Banka Kombëtare Tregtare celebrates the 10th anniversary of its privatization and the 85th anniversary of its first branch in Durrës. In 2010 Banka Kombëtare Tregtare receives two positive ratings from the “The Banker” and EMEA Finance, which rate the NCB as the Best Bank in Albania.

2011 – Banka Kombëtare Tregtare continues to expand, currently numbering 81 branches of which 58 in Albania and 23 in Kosovë. It is again rated as the best bank in Albania by the “Banker” and EMEA Finance.

2012 – The constant and firm growth of the bank continues across all the board of indicators. The international rating agency, JCR Eurasia Rating, awards BKT with AAA (Alb) for the third year at a row, and the British review Euromoney rates Banka Kombëtare Tregtare as the Best Bank of the year in Albania.

Bank Managers over the years:

Ardian XHYHERI

January 1993 – December 1993

Everest MUSTA

December 1993 – February 1995

Eduard YPI

February 1995 – March 1997

Spiro BRUMBULLI

May 1997 – October 2000

Seyhan PENCABLIGIL

October 2000 - ongoing

CREDINS BANK

CREDINS Bank is the first private bank in Albania. As such it occupies a special place in the history of important economic and financial developments in Albania. In its first year of existence, the bank operated with one branch in Tirana, 2 agencies in Tiranë and Durrës and 25 employees. It offers a wide range of banking products and services, from the traditional to the contemporary ones. Currently, CREDINS Bank operates in 16 towns in Albania and runs 47 branches and agencies.



Milestones:

- 31 March 2003** – The Bank of Albania grants license to CREDINS Bank carry out banking activity in the Republic of Albania.
- 2004** - CREDINS Bank offers the service of Traveler's Cheque, "American Express"; it expands its activity by raising to 7 the number of branches and agencies and by doubling the number of employees. At the end of the year the bank numbers 12.000 customers.
- 2006** – The Bank launches its banking services Credins Online, which enables customers to carry out transactions on the internet and via their mobile phone with their bank accounts with maximum safety. At the end of 2006, the bank closes its activity with 36.740 customers, 17 branches and 170 employees.
- 2008** - CREDINS Bank celebrates its 5th anniversary and adds 2 new shareholders: Balkan Financial Sector Equity Holding B.V. (BFSE Holding B.V), the Netherlands, represented by Development Financial Equity Partners (DFE) and State Secretariat for Economic Affairs (SECO), represented by Swiss Investment Fund for Emerging Markets (SIFEM AG).
- 2009** - CREDINS Bank signs a credit agreement with European Fund for South East Europe (EFSE).
- October 2010** – The bank expands its activity thanks to its new license to trade gold and precious coins. During this year, CREDINS Bank signs a cooperation agreement with the Albanian

Post on utilizing the extraordinary opportunities for mutual benefits.

2011 - CREDINS Bank ranks third in the banking sector as regards its annual circulation, increased by about 30% or 7.6 billion leks. For the first time, CREDINS Bank grants investors with the opportunity to invest in gold.

2012 – For the first time in Albania, CREDINS Bank introduced the pre-paid Visa card. The first half of the year 2012 closes with a net profit of 1.47 billion leks. The network expands further and the number of its branches and agencies amounts to 47, and the number of customers to 182 000.

Bank Manager over the years:

Artan SANTO

March 2003 - ongoing

CRÉDIT AGRICOLE

Crédit Agricole Bank started out in 1999 by the name of Inter Commercial Bank of Greece as one of the first private banks in Albania. Its contribution is important in two main aspects: stabilizing the financially poor and turbulent banking sector and ushering Albania as a participant in the new era of international finances.

Crédit Agricole Group currently numbers 54 million customers and 160,000 employees.



Milestones:

1999 – The branch of the Inter Commercial Bank of Greece launches its activity.

2003 – The bank changes its name into Emporiki Bank – Albania and its logo, too, as it becomes part of the Emporiki Group in Greece.

2004 – Emporiki Bank – Albania establishes new branches and comes to cover 90% of the territory of the country.

2006 – The French Group Crédit Agricole purchases 72% of the shares of the Emporiki Group.

2009 – Emporiki Bank Albania celebrates its 10th anniversary in Albania with 23 branches across the country and 33,800 customers.

2010 – Crédit Agricole Group becomes the owner of 100% of the shares of the Emporiki Group.

14 June 2012 - Crédit Agricole SA announces the signature of the contract on the purchase of Emporiki Bank Albania. Now the Emporiki Bank Albania is totally integrated into the Crédit Agricole Group.

3 September 2012 – Emporiki Bank Albania receives official approval by the Bank of Albania of its new brand Crédit Agricole. The new brand serves to reinforce the full support of the Crédit Agricole Group to the bank and the economy in Albania, in general.

Bank Managers over the years:

George CARACOSTAS

November 1999 – June 2011

Luc BEISO

July 2011 – ongoing

CREDIT BANK OF ALBANIA

The Credit Bank of Albania, Ltd., is an Albanian shareholding company. Its shareholders, the Al-Kharafi brothers (Kharafi Group) represent a Kuwaiti group with participation in various businesses all over the world. Established more than 100 years ago as a commercial entity, this group developed into a multinational company and has been very active in Albania since the year 1992, when it started establishing large companies in the country. These companies operate in the field of investments, contracting, road infrastructure, construction of public works, such as hospitals, bridges, airports and other large scale civil engineering projects.



Milestones:

28 July 2002 – Credit Bank of Albania receives license from the Bank of Albania to operate in the banking sector.

01 March 2003 – The Bank launches its operations in Albania's banking market.

2012 – In addition to the principal office, the Bank operates two branches, one in Tiranë and one in Sarandë, with a total of 31 employees.

Bank Managers over the years:

Kamal Abdel MONEIM

March 2003 – November 2009

Sherine KAMEL

December 2009 – ongoing

FIRST INVESTMENT BANK

First Investment Bank, Albania (Fibank – Albania) is the successor of the First Investment Bank, Tirana Branch. The Branch operates in the Albanian market since 1999, initially focusing on deposits and later on providing services for Bulgarian companies operating in the Albanian market.



Milestones:

- 1999** – First Investment Bank Bulgaria opens in Tiranë its branch, called Tirana Branch.
- 2007** – Fibank is licensed by the Bank of Albania as an independent Albanian bank, subsidiary to the First Investment Bank, Bulgaria. In the same year, the bank opens three additional branches in Elbasan, Vlorë and Korçë, and introduces a wide range of innovative banking products for all categories of customers.
- 2008** – The branch network is expanded with other branches as part of the strategy to cover the largest towns in Albania with products and services to both individuals and businesses in these towns.
- 2009** – Fibank achieves 200% growth in investment and 160% in deposits. Its assets increase by 77%.
- 2010** – Investment growth amounted to 370%, deposits to 75% and credit to 99%.
- 2011** – Main financial indicators continue to grow by about 30%, including deposits and lending.

Bank Managers over the years:

Alexander STOYANOV

and Evtim ORMANOV

Evgeni LUKANOV

Petar KRASTEV

Martin BOGDANOV

Svetoslav MOLDOVANSKY

Bozhidar TODOROV

May 1998 – October 1999

October 1999 – April 2002

April 2002- March 2005

April 2005 –March 2007

April 2007 – October 2007

October 2007 - ongoing

INTERNATIONAL COMMERCIAL BANK

The International Commercial Bank is one of the private banks in Albania. It started its activity in 1997. Currently the Bank operates as part of the banking group ICB. ICB Financial Group Holdings AG is a group that controls various banks operating in Africa, Asia and Europe.



Milestones:

January 1996 – The International Commercial Bank is incorporated as a shareholding Ltd with offices in Tiranë.

20 February 1997 – The Bank receives license from the Bank of Albania to carry out banking operations in Albania.

2012 – The Bank operates a network of 8 branches in 8 different geographic locations, spread out in 4 regions. It provides 24 hour/day banking services for its clients.

Bank Managers over the years:

| | |
|-------------------------|------------------------------|
| Kamariah Mohd SOM | January 1996 - February 1998 |
| Alias Bin BAHARI | February 1998 - June 2000 |
| Mohana Dass KRISHNASAMY | July 2000 – May 2001 |
| Alex Lee CHONG PA | June 2001 – June 2004 |
| Ooi Kooi KEAT | June 2004 - June 2006 |
| Rocky TAN | June 2006 – September 2006 |
| Mahendra Singh RAWAT | October 2006 - November 2011 |
| Gideon van den BROEK | November 2011- onwards |

INTESA SANPAOLO BANK ALBANIA

Intesa Sanpaolo Bank Albania was created in 2008 from the merger of two very important banks in the country: Italian-Albanian Bank - IAB and American Bank of Albania – ABA purchased by Intesa Sanpaolo Group.

ITALIAN-ALBANIAN BANK (IAB)



Milestones:

- 16 December 1992** – Law No. 7649, “On Creation of the Italian-Albanian Bank (IAB)” is passed. This is the first model of a 50%: 50% joint-venture between Banca di Roma (now Unicredit) and the Albanian Government (through the National Commercial Bank) with founding capital of USD 10.000.000.
- July 1993** – IAB starts operations with its Tirana Branch located at “Rruga e Barrikadave” with 15 employees, of whom 5 foreigners.
- 1995** – The European Bank for Reconstruction and Development purchases 20% of the shares and contributes to capital growth with USD 2.500.000.
- October 1996** – IAB is nominated by the Bank of Albania to administer a loan of 5 million Euro awarded to it by the European Investments Bank to be used in financial projects implemented by public or private entities, exclusively in the industrial, agro-industrial or similar sectors, as well as in tourism.
- September 1999** – The Durrës Branch starts its activity. Two important agreements are concluded - between IAB and EBRD to promote SME development, and between IAB and DEG, representing the German Federal Republic and the Finance Ministry - to disburse a revolving credit and to provide a guarantee fund for the project, “Albania - Business Improvement.”
- December 2002** – A new branch is established in the town of Vlorë, in order to serve customers South of Albania. The total assets at the end of 2002 amount to USD 121.5 million and the number of employees amounts to 71.

10 May 2006 - Sanpaolo IMI Group purchases 40% of shares of the Ministry of Finance and 40% of the shares of Capitalia S.p.a. EBRD continues to own 20% of the shares. On the same day, SIMEST purchases 3.94% of the shares of Sanpaolo IMI. The new agreement between Sanpaolo IMI and IAB is concluded on the new service of “Get money to family” to assist the Albanian emigrants to send money to their families in Albania.

Bank Managers over the years

| | |
|--------------------|--------------------------------|
| Roberto PANCANI | December 1992 – June 1995 |
| Giancarlo RIZZOLA | September 1995 – December 2000 |
| Giovanni BOGANI | May 2001 – April 2006. |
| Ardian FULLANI | 2000 - 2004 |
| Luigi MASTRAPASQUA | May 2006 – December 2007 |

AMERICAN BANK OF ALBANIA (ABA)



Head office of American Bank of Albania; today, head office of Intesa Sanpaolo Albania.

24 September 1998 – The American Bank of Albania starts its operations. It is established by the Albanian-American Enterprise Fund, a private investment fund created by the USA Government under the SEED Act of 1989.

1999 – ABA runs the WEBCAS (later known as ABAflex) internet banking system, the first of its kind in the Albanian market.

- January 2001** – ABA opens its first branch in Durrës, the most important city port in the country. In the same year, the Bank signs an agreement with IFC on the sharing of SME loan risk, for the purpose of encouraging the development of small and medium sized businesses in Albania.
- 2003** – Upon signature of the agreement with the Visa Card, the Bank starts establishing ATM-s and issuing visa cards at a very short time period, thanks to customer personalization of cards. ABA expands its network with branches in Elbasan and Fier.
- June 2004** – With the opening of its branch in Athens, Greece, ABA becomes the first Albanian banking institution with a branch in an EU country. In the same year, the Bank signs an important agreement with the Institute of Social Securities which provides Albanian citizens living in Greece, the opportunity of paying volunteer social securities.
- 2005** – ABA puts on the market the Gold and MasterCard for business and individuals, thus trebling the number of cards in use. In the same year, ABA signs an agreement with ATE Bank (the Agrarian Bank in Greece) to facilitate bank payments for Albanian citizens living in Greece’s rural areas. ABA becomes the leading bank for many syndicated credits given to support large infrastructure projects in Albania, including the Tirana Airport and the Albanian Electricity Corporation.
- 29 June 2007** – The agreement with the prestigious Intesa Sanpaolo Group is formalized on the “Participation of Intesa Sanpaolo in the American Bank of Albania” for the sale of 80% of the shares.
- 28 September 2007** – The extraordinary assembly of the shareholders approves the draft plan for the takeover of ABA by the Italian-Albanian Bank. With the 7 branches of IAB, ABA closed the year 2007 with 34 branches, 110,000 clients and 500 employees.
- 28 November 2007** – The Bank’s successful activity culminated with the award of the prize “The Best Bank of the Year” by the Banker in a ceremony in London, UK.



Signing of the agreement with the prestigious Intesa Sanpaolo Group, 29 June 2007.



Opening of the American Bank of Albania branch in Athens, Greece, June 2004.

13 October 2008 - ABA and IAB start operating as a single bank under the name of Intesa Sanpaolo Bank Albania, with a shareholding structure headed by Intesa Sanpaolo with 79.59% of the shares and three other shareholders: The Albanian-American Enterprise Fund (11.24%), EBRD (7.78%) and SIMEST (1.39%).

2009 – Important projects are launched to optimize processes and increase efficiency. One of these is “We listen 100%”, an international program of Intesa Sanpaolo Group implemented for the first time in Albania resulting in the establishment of direct contact with the customers.

2011 – Total of the bank assets amounts to 8.4 billion leks and profit reaches the highest level in years with 2.5 billion leks. In 2011, the Training Center in Lapraka is established and the Bank participates in the “Banking program for leaders” an initiative by Intesa Sanpaolo Group and SDA Boconi School of Management in Milan to motivate talents and to promote their career in the organization.

Bank Managers over the years

Lorenzo RONCARI

September 1998 – December 2008

Stefano FARABBI

January 2009 - October 2012

Alexander RESCH

October 2012 - ongoing

NBG BANK ALBANIA

NBG Bank Albania is a member of the NBG Group, the largest financial group in South Eastern Europe. NBG Bank started out as a commercial bank in Greece in 1841 and over the years it turned into a modern and diversified financial group.

NBG Albania started its activity in 1996. Over the 16 years of its existence, the Bank serves its clients across the country with 27 branches in all the main towns of Albania. NBG has constantly provided support to projects of a high social interest. NBG funded a large number of projects in education, environment, health and sports, which testify to its high sense of corporate social responsibility to the communities it serves.



Milestones:

- 25 November 1996** – The branch of the National Bank Greece (NBG) establishes its office in Tiranë.
- 1998 – 2002** – NBG Bank Albania expands its network in Tiranë and opens new branches in Durrës and Korçë. Over this period, and later, too, NBG Bank in Albania has given considerable assistance to channeling the Albanian emigrants' remittances to their relatives in Albania. It also introduced the first products of loans for individuals.
- 2003** – NBG Bank started to provide large scale funding for new apartments. The launching of innovative products on the market and the Bank's aggressive policies in this period contributed to the increase of individual loans on the domestic banking market.
- 2004** – The Bank puts in circulation new products for individuals such as the consumption loan and the car loan. NBG Bank in Albania was the first to offer the product of consumer loans without collateral. Credit to individuals increased by 175%. The branch in Vlorë was established and in

- Tiranë an additional branch was opened in the area of the “former block”.
- 2006** – NBG Bank increases its presence in Tiranë with 4 additional banks and expands its network in Elbasan and along the highway Tiranë-Durrës.
 - 2007** – The number of employees doubles. NBG Bank in Albania establishes its presence in Shkodër, Lezhë, Sarandë, Pogradec, Lushnjë, Berat, Gjirokastër, Fushë Krujë and adds two new branches in Tiranë. During the year, lending for individuals and businesses doubled.
 - 2008** – New branches were established in Fier, Kukës, Kavajë, Bilisht and Tiranë.
 - 2009 – 2011** – Deposits grow substantially and focus is placed on the quality of the credit portfolio. The growth of deposits improves the ratio credit/deposits and the bank’s liquidity.
 - 28 may 2012** – The branch of the NBG Bank in Albania gains the status of a subsidiary to the NBG Group and changes its name to NBG Bank Albania Ltd.

Bank Managers over the years

| | |
|-------------------------------|----------------|
| Alexandros KATSIOURIS | 1996 - 1998 |
| Fotis KYTINOS | 1998 - 1999 |
| Athanasios ALVAS | 1999 - 2001 |
| Constantinos PAPACHRISTOFOROU | 2001 - 2002 |
| Vasilios FILIS | 2002 - 2003 |
| Spiro BRUMBULLI | 2003 - 2008 |
| Ioannis LIVADITIS | 2008 - 2009 |
| Ioannis KOUGIONAS | 2009 – ongoing |

PROCREDIT BANK

ProCredit Bank Albania was founded in 1995 as the “Foundation for Entrepreneurship, Finance and Development” (FEFAD), with 100% of the capital shares provided by the KfW. The focus of the institution was to create financial opportunities for the small and micro businesses in Albania. Despite the economic and political upheaval in the country in 1997, FEFAD managed to have a successful financial performance. It received license to operate as a bank in 1988, and changed into the FEFAD Bank. The founding shareholders of the Bank were the FEFAD, ProCredit Holding (then known as IMI), EBRD and IFC.



Milestones:

- 1996** - Action is launched to establish the FEFAD. KfW, in cooperation with the Albanian Government, following a study of the financial sector, decide to establish a new financial institutional, (FEFAD).
- 15 March 1999** - FEFAD Bank is licensed and starts to operate as a full member of the banking community in Albania with branches in Tiranë, Durrës and Fier and a total number of 62 employees.
- 2000** - The network is expanded with new branches in Elbasan and Korçë. For the first time, the Bank provides support for agribusinesses through the credit line called ProAgro. ProCredit Bank opens new branches in Fier and Durrës.
- 2003** - The name of the bank is changed from FEFAD Bank to ProCredit Bank, as part of the ProCredit Group. ProCredit Bank opens new branches in Gjirokastrë, Korçë, Lezhë, Pogradec, Vlorë and Berat. For the first time ever, the debit card, CashTronic, is put on the market.
- 2004** - The Bank launches ProPay (transfers within the network of the ProCredit banks are simplified as regards both time and costs, ultimately leading to improved international exchange of goods and services).
- 2005** - The Bank celebrates its 10th anniversary with new branches in Lushnjë and Gjirokastrë. ProCredit Bank is evaluated by Fitch Ratings with B, and by this act it becomes the first bank to be evaluated in Albania. It is also evaluated as the best bank in the region with regard to the ROE and ROI indicators by Finance Central Europe.
- 2006** - ProCredit Bank is evaluated by Fitch Rating with B+ and as the best bank in Albania (with regard to the ROA indicator).
- 2009** - The bank offers for the first time on the market the loan: “Energy efficiency”, for individuals who wish to invest in their homes to save energy and to improve and make their living more comfortable.
- 2011** - The Bank runs the Program of Junior Bankers, for all graduates, with or without job experience, wishing to carry out a 6 month working internship to learn more on the banking system and to develop their careers as responsible bankers with the ProCredit Bank.

Current bank Managers:

Since 2011, ProCredit Bank is led by:

Flutura VEIPI

Director of the Board of Directors

Anila DENAJ

Member of the Board of Directors

Violeta HAXHILLAZI

Member of the Board of Directors

RAIFFEISEN BANK

The Bank started out as the Savings Bank created by Law No. 7505, date 31.07.1991 “On the Savings Bank”, as the successor of the Institute of Saving Deposits and Securities.

With an aggressive position in the market at the onset of the years ‘90, the Bank soon managed to provide a wide range of traditional banking products such as deposits, loans, national and international payment transfers, cheques, credit cards, currency exchanges, etc. With the advantage of having inherited an extensive network of branches throughout the country, it became without delay the largest bank in Albania with regard to assets and number of customers. The human resources of the Savings Bank served as the pool of qualified employees on which the private banks created subsequently in the country drew generously.

Managers of the Savings Bank over the years:

| | |
|----------------|--------------------------------|
| Edvin LIBOHOVA | August 1991- January 1995 |
| Bedri ÇOLLAKU | January 1995 – July 1997 |
| Artan SANTO | July 1997 – February 2001 |
| Edvin LIBOHOVA | February 2001 – September 2002 |
| Ardian KAMBERI | September 2002 – April 2004 |

Today Raiffeisen Bank Albania has the largest network with 103 branches across the country, 193 ATM-s, 1300 sale terminals (POS) and more than 210, 000 “Visa Electron” debit Cards in circulation on the market. Meanwhile, more than 126 000 individuals receive their salary through Raiffeisen Bank. It has a total of assets of about 2 billion Euros. Raiffeisen Bank Albania is the largest bank in Albania and it offers a complete range of services to both individuals and business clients thanks to a sophisticated infrastructure of processes, systems, branches and agencies comparable to the European standards in the 21st century.

Milestones:

- 2004** – Raiffeisen Zentralbank Osterreich Aktiengesellshafft purchases 100 percent of the shares of the Savings Bank in Albania. The bank changes its name from Savings Bank to Raiffeisen Bank Ltd.
- 2005** – Raiffeisen Bank puts in the market a consumer loan, following 8 years of the Savings Bank refraining from lending to individuals. In the same year the bank puts in circulation 50 thousand Visa Electron cards and 50 ATM-s across the country. Raiffeisen Bank is awarded the prize the “Best Bank” in Albania by Global Finance.
- 2006** – Raiffeisen International opens its 3000th branch and Raiffeisen Bank its 95th branch in Albania. Raiffeisen Bank is given the prize of the “Best Bank” in Albania by Euromoney and Global Finance.
- 2007** – Raiffeisen Bank again receives the “Best Bank” in Albania by Euromoney. The bank starts to open its branches for customers even on Saturdays and in the same year signs a microloan funding agreement with EFSE and the Albanian Microcredit Partner.
- 2009** – Raiffeisen Bank celebrates its 5th anniversary in Albania. Among other initiatives, this year the Bank signs an agreement with the KfW on provision of funding for building small scale



Signing of the Agreement with KfW.I



Ceremony of launching the First Investment Fund, Raiffeisen Prestige, 2012.

hydropower plants in Albania.

2010 – Raiffeisen Bank continues to adopt new technologies for its banking services. It introduces the newest services, i.e., Raiffeisen Direct/Internet banking for individual customers, which enable internet-based access to banking services.

December 2011 – Raiffeisen Bank receives the award of Philanthropy for its contribution to education and culture development. In this year, the bank introduces the newest service on electronic banking – Mobile Banking. In addition, for the seventh year in a row, Euromoney nominates Raiffeisen Bank as the “Best Bank” in Albania.

February 2012 - Raiffeisen Bank introduces Raiffeisen Invest, the first company in Albania for the management of assets licensed by the Authority of Financial Supervision and the launching of the First Investment Fund called Raiffeisen Prestige, which provides an opportunity for all the clients to invest in securities by the Albanian government.

Managers of Raiffeisen Bank over the years:

Steven GRUNERUD

April 2004 – January 2008

Oliver J. WHITTLE

February 2008 – October 2010

Christian CANACARIS

October 2010 – ongoing

SOCIÉTÉ GÉNÉRALE ALBANIA

The Bank started out as the Popular Bank, with 100% private Albanian capital held by shareholders representing some of the outstanding businesses in the country. With the shareholder's support and efficient management, the Popular Bank offered immediately a wide range of competitive services. Société Générale Group purchased in July 2007 the greatest part of the shares of the Popular Bank, making the Bank a member of one of the most famous groups in the world. Société Générale Albania has expanded its presence through the increasing number of its branches across the country and through an ever wider range of national and international products and services for all the categories of clients.



Milestones:

- 16 February 2004** – The Popular Bank receives license by the Bank of Albania to carry out banking activities in the local market.
- 1 March 2004** – The Popular Bank starts to provide services to its customers.
- 2004 – 2006** – In the first three years of its activity, the bank experiences an unprecedented growth dynamics. With 30 branches, it becomes soon an important factor in the Albanian banking market, which attracted the attention of foreign investors (OTP-Hungary, NLB-Slovenia, Société Générale – France, etc.).
- 18 July 2007** – The process of 75 % + 1 share purchased by the Société Générale Group is concluded and the bank, hereinafter, is called Popular Bank – Société Générale Group.
- 2008** – Société Générale Albania expands its activity by opening new branches in Golem, Peshkopi, Tiranë, Ersekë and Roskovec.
- 2010** – For the first time in the history of the Bank Société Générale Albania, its employees are



Branch of Banka Popullore, Elbasan.



Ceremony of the purchase of Banka Popullore by Société Générale Group, Tiranë, 18 July 2007.

profiled as customers' personal bankers. In the same year, the Bank's portfolio expands with 23% as regards lending for small and medium sized enterprises and corporations, too, and 138% as regards the deposits portfolio for the same segment.

July 2010 - Société Générale Group is awarded the prize of "Best Bank" in South East Europe, and the Prize of Perfection by the prestigious Euromoney.

4 August 2010 - The bank of Albania approves the change of the bank's name from Popular Bank Ltd to Société Générale Bank Albania Ltd.

2012 - The bank has 43 branches and 391 workers serving 128.000 customers in all the main towns in Albania.

Bank Managers over the years:

Edvin LIBOHOVA

February 2004-July 2007

Henri Maus De ROLLEY

July 2007- September 2009

Hubert De SAINT JEAN

September 2009 - ongoing

TIRANA BANK

Tirana Bank is the first bank with entirely foreign capital in Albania. It was established in 1996 and during this period, it has had an extensive development with many branches across Albania. Following 16 years in the Albanian market, it has been consolidated and has also expanded its range of products and services.

Tirana Bank is a member of Piraeus Bank Group and operates in full coordination and harmony with the Group's objectives and goals. It continues to grow and expand while maintaining its philosophy for being at the forefront of offering new banking products in Albania.



Milestones:

1996 – Tirana Bank is licensed and becomes the first private bank in Albania.

1997 – The year of official founding.

1999 – The bank introduces the service of paying with the Visa Card and achieves the first positive financial results.

2000 - Tirana Bank opens new branches in Gjirokastër and Korçë, in addition to those opened earlier in Fier and Durrës.

2001 – The Bank undertakes a great leap, expands its activity and trebles the value of its assets in relation to 1997.

2002 – Tirana Bank issues the first credit VISA card. In this year, the network of the bank, too, expands significantly.

2004 – Seven new branches are opened, and the network of Tirana Bank now counts 22 branches,

becoming the second largest bank in the country.

2006 – The Bank increases substantially its services for both large and small businesses and, at the same time, introduces new products. The network now counts 36 branches, 43 ATM-s, and 377 employees.

2009 – The bank undergoes complete re-organization with focus on the businesses and customers. Three new branches are opened and 22 existing ones are renovated. Profit amount to 13.2 million Euros, despite the crisis.

2011 – The network now comprises 56 branches despite the first signs of the crisis appearing on the Albanian market, which of course dictates a change in priorities. The focus is on strengthening the capital and following a correct and effective path in the management of liquidities.

Bank Managers over the years:

| | |
|------------------------|----------------------------|
| Viron PITSILIDIS | November 1995 – April 1998 |
| Dimitris KARAVIAS | April 1998 – October 2004 |
| Dimitris FRANGETIS | October 2004 – May 2008 |
| Bedri ÇOLLAKU | May 2008 – February 2009 |
| Dimitris SANTIXIS | February 2009 – March 2011 |
| Georgios CHARALAMPAKIS | March 2011 – October 2012 |
| Savvas THALASSINOS | October 2012 – ongoing |

UNION BANK

Union Bank was established as a private bank with 100% Albanian capital. It is the offspring of one of the most successful institutions in the Albanian financial system – Tirana Financial Union, Ltd., exclusive representative of Western Union Financial Services Inc. for Albania, Kosova and Macedonia. The values and positive experience that the TFU transmitted to its customers, made possible for Union Bank to extend, over a very short period of time, its branches across the Albanian territory; 31 new branches were established in 3 years.



Milestones:

- 9 January 2006** - Union Bank receives license to operate in the banking market and since the first year launches the full range of banking products and services: loans, transfers, payments, U-cards, etc. It adds 7 new branches to its network in the towns of Tiranë, Durrës, Elbasan, Fushë Krujë, and Fier.
- 2008** – EBRD becomes a shareholder through the purchase of 12.5% of the shares of Union Bank. This year the bank puts in circulation the Maestro and MasterCard and the service of internet banking “UB Online”; it also expands its network with 6 new branches.
- 2009** - Union Bank launches the implementation of the Institutional Development Plan – a two year EBRD technical assistance program with the goal of strengthening the human resource capacities of the Union Bank. With the opening of branches in Kavajë and Vlorë and two other new branches in Tiranë, the number of branches amounts to 30. After three years of investing for expansion and consolidation, Union Bank closes the financial year with profit.



Ceremony for the purchase of Union Banks' shares by EBRD.

2010 - Union Bank starts to implement the EBRD Agreement on SME support and concludes the process of organizational restructuring. It is now oriented towards the further expansion of the bank in the market and better risk control. This year Union Bank becomes the official sponsor of the Albanian National Football Team for 2010-2012.

2012 - Union Bank invests on the CHIP platform for the Maestro and MasterCard and puts in circulation the new product, mobile banking "UB-Mobile". The Bank renews the Agreement on Sponsoring the National Albanian Football Team with the Albanian Football Federation into the new session 2012-2014 in the run up to the "World Cup" – Brazil 2014.

Bank Manager over the years:

Gazmend KADRIU

January 2005 - ongoing

UNITED BANK OF ALBANIA

United Bank of Albania operates in the Albanian market since 1993. Over the years, it has developed into an entity with the aim of providing innovative services of superior quality to satisfy the expectations of its clients; to offer Islamic banking services free of interest; to maintain long term and sustainable profitability rates, high deposit and assets growth rates as well as financial stability.



Milestones:

May 1993 – The Islamic Arab-Albanian Bank received permit by the Bank of Albania to operate as a joint venture between the Albanian State represented by the National Commercial Bank, owning 40% of the Bank's capital and a group of foreign investors owning 60% of the capital.

July 1994 – The Bank's operations are inaugurated.

2000 – Following privatization of the National Commercial Bank, the shares of the Albanian State are transferred from the NCB to the Ministry of Finance (the Treasury Directorate), which takes into possession the 40% of shares of the United Bank of Albania.

2003 – The Bank changes its name from the Islamic Arab-Albanian Bank to United Bank of Albania. In the same year, the new Branch in the town of Fier starts its operations.

2006 – A new branch is established in the town of Tiranë.

2007 – A new branch is established in the town of Durrës.

2008 – Construction work concludes and the new premises of the Bank (the property of the Bank) are inaugurated. These premises will be the seat of the Central Directorate and at the same time serve as the offices of a new branch, the Central Branch of Tiranë.

30 March 2009 – The contract on the sale and purchase of shares is signed between the Ministry of Finance and the Islamic Bank for Development. The Islamic Bank for Development now

owns 55% of the Bank shares. By end of this year, the process of selling the shares of the Bank is finalized and the United Bank of Albania becomes a Commercial Company with entirely foreign capital.

2012 - The Bank capital increases with added liquidities. This measure enhances the safeguards for a sustainable activity to increase the opportunities of introducing new bank products. Following this change in the structure of the Bank capital, the main shareholder, i.e., the Islamic Bank for Development, holds 86% of the bank's shares.

Bank Managers over the years:

| | |
|---------------------|---------------------------|
| El Garib NASSER | July 1994 – April 1995 |
| Ali SALEM | May 1995 – May 1997 |
| Ahmed O. El ANTABLY | June 1997 – August 1999 |
| Abdul Waheed ALAVI | September 1999 – May 2009 |
| Hikmet GÜLER | June 2009 – ongoing |

VENETO BANKA

In 2005 *Banca Popolare Pugliese* together with the Mariano family from Lecce (Italy), purchase the shares of the “Dardania Bank”. The Bank adopts the name of *Banca Italiana di Sviluppo*, or *BIS Banca* (Italian Bank for Development). This bank would serve as a bridge for cooperation between the Italian and Albanian businesses.

The purchase of the bank by Veneto Banka Group resulted in the bank’s increased presence through setting up additional branches and its capital increasing by five times over. Today Veneto Banka serves its customers with 12 branches and 13 ATM-s in the main towns of the country.



Milestones:

- 2005** – The Bank has a modest network of 2 branches and implements the service of local cards *BIS Banca*, to withdraw cash from the ATM-s dedicated to its customers only.
- 2007** – *BIS* expands its activity with two other branches, in Vlorë and Durrës, and invests on Internet Banking to be of assistance to its customers who wish to operate online.
- 2008** – The Bank continue to expand its network mainly in Western Albania
- 2009** - *Banca Popolare Pugliese* and the Mariano family conclude a selling agreement with *Gruppo Veneto Banca* (Trevizo – Italy), an ambitious group seeking to expand its presence. The group controlled 4 banks in Italy and 3 banks in Eastern Europe, i.e., *Banca Italo-Romena* in Romania, *Eximbanka* in Moldova and *Veneto Banka d.d.*, in Croatia. The group also had representation offices in Ireland and China.

The bank officially changes its name from the Italian Bank for Development (*BIS Banca*), to Veneto Banka Albania, with *Gruppo Veneto Banca* owning 95% of the shares. The new branch in

Shkodër is added to the bank's network in Albania.

2010 – The Bank introduces the VISA service for debit and credit cards for the customers of *Veneto Banka*, and invests to “adapt” to this system by unifying the existing ATM-s and purchasing new ones. In this year, the new system of e-banking is implemented.

2011- *Veneto Banka* Group authorizes the launch of the project to expand the network with two other branches. The branches of Lezhë and Kavajë are inaugurated.

2012 - *Veneto Banka* expands its activity with three additional branches - two of which in Tiranë -and for three years now is one of the banks with the greatest growth rate in the market.

Current Manager of the Bank

Lucio GAITA

2011 - ongoing

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